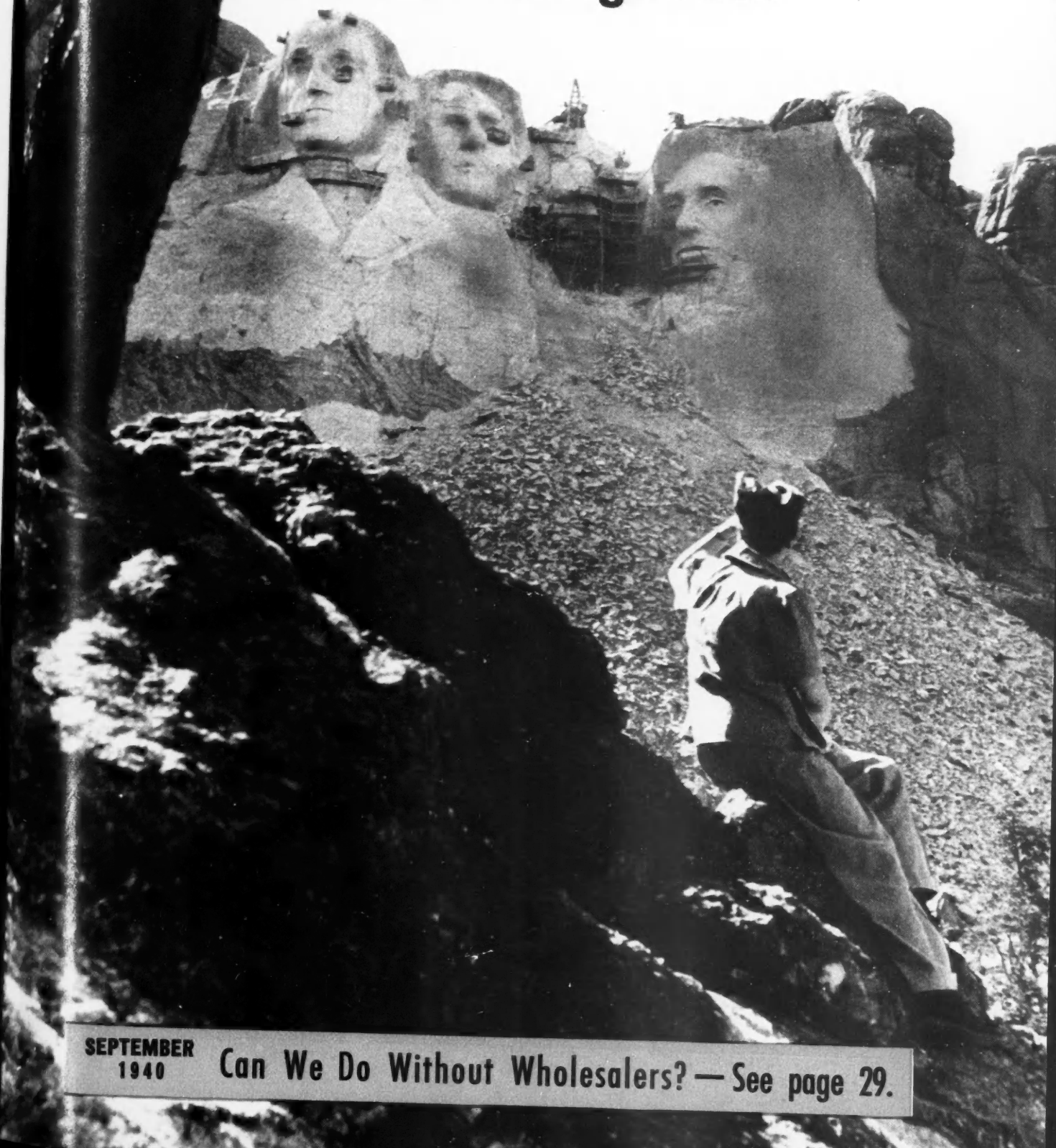


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SEPTEMBER
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Can We Do Without Wholesalers? — See page 29.

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Manufacturers' Sales, Collections and Accounts Receivable

Wholesalers' Sales, Collections, Accounts Receivable and Inventories

Cover: Photograph taken by Eduard W. Naumann, N.A.C.M. Staff, on a vacation trip in the Black Hills.

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INSURANCE

A Bulwark of Credit

* * This page, which is donated by one of its members, is used monthly by the Insurance Group of the National Association of Credit Men to foster a better understanding of insurance as an indirect guarantor of credit.

THE PROGRAM

1. To encourage a wider understanding among credit executives of insurance as a protector of sound credit.
2. To keep credit executives informed of the wide variety of insurance coverages which are available.
3. To promote the use of the official N.A.C.M. insurance statement form as a supplement to the financial statement.

Approved by National Association of Credit Men

INSURANCE STATEMENT

IMPORTANT: The insurance you carry has a direct and extremely important bearing on your financial standing. Excellent firms with normally adequate capital resources have had their financial standing seriously impaired or become actually insolvent because they were inadequately insured.

Please give below details of the insurance you carry. This should be useful to you not only because it will help your credit standing but also because it will enable you to review your insurance problem. Your insurance adviser can supply details of most of the information required.

The firms of insurance listed represent those most commonly in force in the average commercial business. It should be clearly and definitely understood, however, that the mere fact of your carrying all these insurances does not in itself prove that you are adequately insured. You may need additional forms, or fewer, depending largely on the particular nature of your business. These are points on which you should consult your insurance adviser.

	BUILDINGS	CO-INS %	MACHINERY & FURN. & FXT.	CO-INS %	MERCHANDISE	CO-INS %	USE & OCCUPANCY	CO-INS %
Fire	\$		\$		\$		\$	
Windstorm								
Explosion								
Riot								
Sprinkler Leakage								

If your insurance is the "Blanket" type, show total amount followed by the word "Blanket" in the "Buildings" column.

Steam Boiler —	Property Damage	\$	Steam Boiler —	Use & Occupancy	\$
Machinery Breakdown —	" "		Machinery Breakdown —	" "	
Transportation — Domestic Shipments			Transportation — Ocean Shipments		
Interior Robbery			Payroll Robbery		
Safe Burglary			Stock Burglary		
Fidelity Bonds			Check Forgery		
Public Liability on Premises			Employers' Liability		
Elevator Public Liability			Products Public Liability		
Auto Public Liability (owned cars)			Auto Public Liability (non-owned cars)		
Auto Property Damage (owned cars)			Auto Property Damage (non-owned cars)		
Workmen's Compensation — Are all your employees included?	Yes	No	Life Insurance (Payable to business)		
If you hold property of others is your liability insured?	Yes	No	Does your Public Liability insurance cover construction work done on your premises?	Yes	No
If you have assumed liability of others under any contract such as lease, has your Public Liability policy been extended to cover it?	Yes	No	Have you made sure that all policies covering the same property or liability read alike?	Yes	No

If you carry any other insurance list details below.

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Windstorm
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Theft
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Tornado
Earthquake
Explosion
Riot
Aircraft Property Damage
Glass Breakage
Collision
Property Damage
Non-Ownership
Drive Other Cars
Hired Cars
Loss of Use
Bailies Customers Floater
Bridge Insurance
Builders Risk

Camera Floater
Consequential Damage
Contingent Liability—R.R. Sidetrack or Switch Lease
Demolition
Department Store Floater
Disability Insurance
Individual
Group
Dyers & Cleaners Floater
Earthquake
Electric Sign
Engagement Ring Floater
Equipment Floaters
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Explosion
Extended Coverage
Tornado
Hail
Riot
Explosion
Smoke Damage
Aircraft & Motor Vehicle P.D.
Extra Expense
Fallen Building
Fire
Fine Arts Floater
Flood
Frost

Fur Floater
Furriers Customers
Garage Keepers Liability
Garment Contractors Floater
General Floater
Gold & Silverware Floater
Golf Floater
Gross Receipts Truckmen's Floater
Gun Floater
Hail Insurance
Horse & Wagon Floater
Installation Floater
Installation Sales Floater
Jewelers Block
Jewelry—Fur Floater
Laundry Floater
Leasehold
Life Insurance
Individual
Key Man (in a business)
Group (including disability)
Live Stock Floater
Malicious Mischief—Vandalism
Manufacturers Output Floater
Marine
Hull (various forms)
Cargo (various forms)
Mortgage Interest
Morticians Equipment Floater
Motor Truck Cargo
Motor Truck Merchandise Floater
Motor Vehicle Property Damage
Musical Instrument Floater
Paraphernalia Floater
Parcel Post Floater

Patterns & Die Floater
Personal Effects Floater
Physicians & Surgeons Floater
Profits & Commissions
Public Liability
Radium Floater
Rain
Registered Mail
Rent—Rental Value
Riot & Civil Commotion
Safe Deposit Box
Salesmens Sample Floater
Scheduled Property Floater
Scientific Instrument Floater
Smoke Damage
Sprinkler Leakage
Sprinkler Leakage—Legal Liability
Stamp Collectors Floater
Stock Floaters
Stock—Reporting
Surety Bonds
(numerous forms of bonds)
Theatrical Floater
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Tourist Baggage Floater
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Bedrock!

In a time of world conflict and chaos when, with startling rapidity, the history of centuries is seemingly being rewritten daily, it can indeed be difficult to remain calm and use sober judgment. Yet the need of reasonable self-containment is essential to an understanding and survival of a period such as we are experiencing.

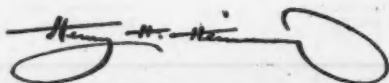
This nation is in the midst of an unparalleled propaganda barrage. Few will deny that certain groups, at least, have verged on the hysterical in their attitude and statements.

It is, of course, natural for men and women to become seriously interested when they review world conditions. We are a sympathetic people. We realize the importance of preserving the fundamental principles of a representative democracy. Let us therefore take care to avoid a resort to practices or actions that contradict the very essence of the form of government we cherish with such zeal.

Our Bill of Rights, which is contained in the first ten amendments to the Constitution, guarantees certain privileges of worship, speech, press and assembly. It protects the home and private property. It guards the individual against capricious legal involvements.

We must have the spirit of this Bill of Rights ever in mind so that we can check any tendency such as that recently revealed which, if carried a little further, would have everyone who disagrees with a certain limited viewpoint labelled as a "fifth columnist." And that must be binding whether the individual in question is a native or naturalized citizen, or an alien who sincerely intends to become one of us and is obeying the country's laws in the meantime.

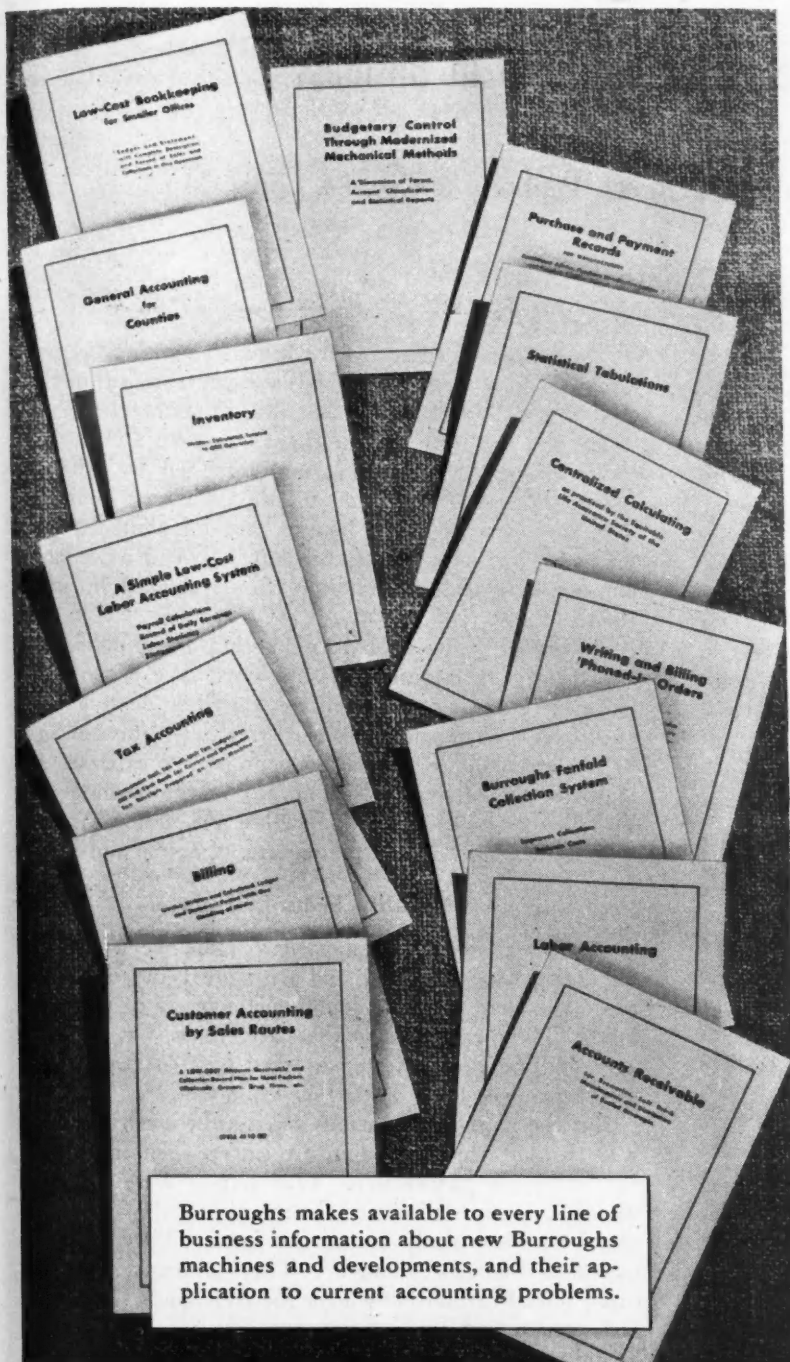
We must not submerge facts or allow our sympathies in a foreign struggle to undermine the bed-rock principles upon which our type of government is founded. Against the solid rock of temperate judgment, the fury of the waves of passion and prejudice will break to our ultimate advantage. Now, more than ever, we need deliberation and understanding in determining the best course of action for the defense of our cherished democratic principles.



Henry H. Heimann
Executive Manager, N.A.C.M.



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Your Customer — To Have and To Hold

Plans That Help Him Advance in Business

By L. A. Ernst, Credit Manager, Cluett, Peabody & Co., St. Louis, Mo.

Credit It is one thing to have a customer; it is another to hold him. If he is not indissolubly and inalienably linked to you, easy will be the task of some competitor to wean him from you. And more important still is to keep your customer by keeping him in business. If he falls by the wayside, if he too joins the flotsam of today's wrecked business enterprises, you have not only lost a customer but you too have been instrumental in his failure to keep going.

The average credit manager of today would resent being told that he does not fully subscribe to all the neoteric possibilities that his profession affords him. He would undoubtedly become incensed if it were said of him that, pretty generally, he still merely passes credits and makes collections. And he would certainly bristle if he were accused of not being interested in building the sales of his company.

And yet, after thoughtful and profound introspection, must not many of us admit to much or all of the above? Are we not often purblind to the problems confronting our customers? Do we really strive to understand those problems, do we endeavor to enlighten our customers, aid them to cope with present-day worries and uncertainties? In brief, the question we must put before ourselves as contenders for the title of Manager of Credit Sales is: What are we doing to assist our customers to operate successful stores and therefore to stay in business and be better and bigger customers of our companies?

Operating Figures Necessary

I am certain that no one would argue against the necessity for an operating statement, without which a balance sheet is incomplete, without which a clear and intelligent picture and analysis of the business is precluded. Yet, and this is an incontrovertible fact, those credit managers requesting operating figures are very much in the minority. I have heard many excuses from credit managers as to why they do not ask for operating figures. However, are not these alibis serving as a thin coat to hide an inveterate inertia, or to cloak a timorous spirit? Undergirding the whole of the structure of a modern credit department is the great opportunity to render service to the customer and to the credit manager's own company. The merchant today is fraught with problems and uncertainties and doubts and misgivings—and he does need and welcome help. If there is any individual in business who is more fitted, by virtue of his position and

knowledge, to give the merchant the aid he needs, it is the Credit Manager!

A number of years ago we began requesting operating statements as inseparable and indispensable adjuncts of the balance sheet. It was not easy to obtain them. We were probing into the merchant's private affairs. We were asking for something not requested by others to whom he owed more than to us. We were indicating our apprehension of his honesty and his ability. What we were really doing was breaking through a seemingly impenetrable wall of tradition, firmly molded by precedent.

Nevertheless, we kept on requesting operating figures: courteously, tenaciously, cooperatively. We began to receive more and more. Then we started to write analytical letters, commenting constructively on the turnover of the merchandise, on the gross profit, the expenses, the status of the receivables—or on any of the seemingly infinitude of phases which lie before the credit manager who has in front of him the picture, complete and whole.

Sincerity Wins in End

Again we came to an impasse. Again we were probing into personal affairs; and we were being dictatorial too. We were veritable doubting Thomases of the worst kind. The merchant said that Mr. Jones, Credit Manager of The Brown Company, had written that he, the merchant, was doing a fine job, while we . . .

But the most contumacious spirit must eventually give way to that which is manifestly sincere, genuinely helpful, obviously cooperative. Our letters were carefully worded, never pessimistic, always giving the benefit of the doubt, yet firmly facing the facts. They gave the merchant food for thought. They probably, in many cases, forced certain facts upon the merchant's conscience, facts which he already knew, but, like Scarlett O'Hara, he did not want to think about them until tomorrow.

All fear and dissension have long ago been entirely dissipated. The merchant and the credit department have become friends. Many balance sheets and operating statements are sent to us now before we have an opportunity to request them. And they are invariably accompanied by a letter asking for our analysis, our comments, our advice. There has grown a feeling between us that we need each other, that progress can not be one-sided. The merchant believes us when we tell him that our success is built upon his.

Can there be any greater sales promotional work on the part of the credit department than this? Can anything weld the relations of merchant and credit department into one indissoluble whole more than such a mutual feeling of camaraderie? Or can the sales department look upon such a credit department as a necessary evil, wholly divorced and a separate entity?

However, we were not satisfied to stop there. We began to wonder if we could expand upon the service of obtaining financial and operating figures and writing analytical letters, or visiting the merchant's store and going over his business. We pondered the possibility of going a step further.

In our letters of analysis we were forever speaking of a turnover of merchandise on the cost of sales which we believed lower than it should be; a gross profit or mark-up lower than average; expenses higher than normal; an income not in keeping with similar stores doing a comparable volume. Then we began to wonder just what the average was for each of the more important phases. There was but one way to find out: conduct a survey based on the statements received from our own customers!

The figures were tabulated on a large work sheet. We set a certain maximum sales volume and classified stores in three groups, as follows: Haberdashers; clothing and men's furnishings; department and dry goods. The phases considered were: the increase or decrease in sales, in inventory, in tangible net worth; the turnover of merchandise on the cost of sales; the current ratio; the percent of gross profit, expenses, and net profit to sales. This first survey included better than two hundred statements.

The averages arrived at were exceedingly interesting. They were also comforting to us because they bore out statements we had made time and again. They should be equally interesting to those merchants who had contributed to the survey by sending us their figures, so we sent the results to those merchants, showing opposite the average for each phase the merchant's own individual results.

Many and enthusiastic were the responses to this task. What seemed to impress the merchants more than anything was that these figures were compiled by a manufacturer and that they reflected the trend of operations of stores engaged in the same lines of business and in a certain trade territory.

Then, too, the merchant above the average was pleased and redoubled his efforts to keep above it, while the one below was further impressed with his shortcomings and strove to rise above the average.

Merchants Liked Survey

The following year we did not conduct a similar survey. And it was missed! Numerous letters were received, but there was one in particular that really acted

as an incentive for us to conduct another. This merchant, a good customer of ours in the South, wrote that each year he received numerous surveys conducted by various organizations. However, he said he had never forgotten ours, which to him seemed more apropos. He asked if we would not conduct another.

Just recently we completed our second survey. It was a much more comprehensive one than the former. It included three hundred and five balance sheets and operating statements. Many more had been received, but for various reasons they could not be included. In addition to the phases considered in the previous survey this one added the increase or decrease in accounts receivable, and the percent of the receivables to the sales. The lengthening of terms in the clothing and men's furnishings field, along with the pronounced trend to retail factoring of receivables, dictated the wisdom of including these two phases.



The results of this survey were got up in a very attractive manner by our printing department in the form of a little booklet entitled, "1940 Survey of 1939 Operations." It is prefaced by introductory remarks which explain the origin of the first survey and the reasons for having conducted another. There follows a brief outline as to how the survey was compiled, the maximum sales volume considered, and the number of stores in each classification.

Our experience in analyzing statements has impressed upon us the fact that many merchants do not understand many of the terms used in a balance sheet or operating statement, or in the analysis of these statements. Therefore, the booklet defined numerous terms and also explained how we arrived at various

ratios or percentages. We felt that this was an important part of our educational program.

Every Account Got Figures

Following this were the results of the survey, and again, opposite the averages, the merchant's individual results were written in. (However, we sent this booklet to every account on the books, small or large, regardless of whether they contributed figures or not.) We then showed the comparisons with previous years, followed by the high and the low for each phase for each classification, to denote the breadth and the scope of the survey.

(To many reading this article the results of the survey and the comparison with previous years will be interesting. Therefore, we give the comparative results. Please note how these figures point to the consistent decline in the inventory turnover and in the net profit.)

Phases		1936	1937	1939
Sales	Haberdashers		9.9%	(.5%)
	Clo. & Furn.		6.5%	4.8%
Increase	Dept. & D. G.		4.4%	2.9%
	Haberdashers		16.5%	(.5%)
Inventory				

		1936	1937	1939
Increase	Clo. & Furn.		13.8%	2.5%
	Dept. & D. G.		6.7%	4.1%
Current	Haberdashers	4.78	5.40	6.27
Ratio	Clo. & Furn.	3.57	3.34	3.91
	Dept. & D. G.	4.00	4.35	4.69
Inventory	Haberdashers	2.81	2.36	2.24
Turnover on	Clo. & Furn.	2.31	2.10	2.01
Cost of Sales	Dept. & D. G.	2.43	2.29	2.14
(Times)				
Tangible	Haberdashers		11.9%	8.1%
Net Worth	Clo. & Furn.		4.9%	3.3%
Increase	Dept. & D. G.		7.1%	3.6%
Gross Profit	Haberdashers	35.0%	35.2%	35.9%
to Sales	Clo. & Furn.	33.4%	31.9%	32.3%
	Dept. & D. G.	25.6%	26.0%	26.0%
Expenses to	Haberdashers	22.7%	26.5%	31.2%
Sales	Clo. & Furn.	28.3%	30.3%	27.7%
	Dept. & D. G.	21.2%	21.9%	22.2%
Net Profit	Haberdashers	12.1%	8.7%	5.3%
to Sales	Clo. & Furn.	6.2%	5.4%	5.4%
	Dept. & D. G.	5.5%	5.6%	4.8%
Percent of	Haberdashers			8.4%
Receivables	Clo. & Furn.			13.7%
to Sales	Dept. & D. G.			11.1%
Receivables	Haberdashers			(.09%)
Increase	Clo. & Furn.			6.0%
	Dept. & D. G.			8.9%

Survey of Whole Industry

There then followed what was the most difficult part of the entire task, a complete analysis of the whole survey. However, we broke down each phase and analyzed it thoroughly, making pertinent comments and comparisons throughout. For instance, we showed the percent of the working capital represented by the inventory:

Haberdashers	74.1%
Clo. & Furn.	86.4%
Dept. & D. G.	81.0%

In addition, we showed the number of times each group turned its working capital; the percent of the current liabilities represented in the tangible net worth; and, lastly, the approximate number of days' business on the books.

In our concluding remarks we tried to emphasize the reason for the survey and the work it entailed. We invited comments on it, asked that we be contacted if in any way we could be of further help. The following is quoted from the concluding paragraphs:

"In a way, there is a selfish motive behind this work. If you succeed, we succeed; as your business increases, ours increases; as you go forward, we go forward. If this survey is to be labeled at all, it must needs be this: We are interested in your welfare, as one of our outstanding ARROW accounts; and we want to be ever cognizant of the fact that upon your success is our success predicated. . . . Let us hope that this task will mutually aid us to move forward together, for together we can surmount all obstacles; apart, we can not hope to survive. Cooperation, in its most literal sense, must be our watchword."

We have already received some very gratifying re-

plies. Some firms have requested additional booklets to be distributed throughout their organizations. One merchant wrote us: "Surely this will result in benefit to you for the reason, 'He who serves best, profits most,' and this is a genuine service to retailers who need guidance more than any other industry in our great country."

We feel this is reward in its greatest significance!

Does all this entail too great an amount of work for the credit executive of today? We think not, if he is efficient and his department is competently managed. Are the results appreciated by both the customer and the company the credit manager serves? We can definitely state that the results are in no way abortive; rather, they yield continuous rich rewards. Finally, is all this a drastic departure from an old order and an entre into a new? You, as credit executives; you who would *keep* your customer on the books by keeping him in business; you who alone have the implements at hand to fashion and shape and influence the destinies of the merchant of tomorrow — you are the ones to decide — you are the ones to answer.

Explanation of Terms Used

In the pamphlet issued by Mr. Ernst's company in which is presented the Survey of Operations for 1939, the following interesting explanation of terms is given:

Current Assets: Those assets readily converted into cash; i.e., cash on hand and in bank, receivables, merchandise, government securities.

Current Liabilities: Obligations due within one year from the date of statement. (Obligations due more than one year from the date of statement are known as deferred.)

Current Ratio: This is obtained by dividing the Current Assets by the Current Liabilities. When one speaks of a 2 to 1 ratio, one means \$2.00 to \$1.00 — or, two dollars of current assets for every one dollar of current liabilities.

Cost of Sales — or also, Cost of Goods Sold: This is obtained, simply, as follows: Inventory last period plus year's purchases, minus closing inventory. Therefore, when one speaks of the turnover of the merchandise on the cost of sales, the figure is obtained by dividing the cost of sales by the closing inventory. A turnover of two times means that the stock of merchandise turned over twice. Example: Cost of sales \$50,000.00 — inventory \$25,000.00 — equals a two-time turnover.

Tangible Net Worth: The sum of the capital and surplus less any intangible assets; i.e., treasury stock, good will copyrights, patents, etc. It is the liability of a business to those interested in it after *all* debts have been paid. The net worth should always — be it an individually owned business, a partnership, or a corporation — take into consideration the profit or loss from operations from year to year. We emphasize this because so many statements we see do not. As an example: If the net worth was \$25,000.00 last year, and is \$27,000.00 this year, indicating a \$2,000.00 gain, but the operations reflected a loss of \$500.00, there has not been the proper reconciliation of the net worth account.

Gross Profit: This is obtained by subtracting the cost of sales from the net sales.

Net Operating Profit: This is obtained by deducting the expenses pertaining to the operation of the business from the gross profit.

Can We Do Without the Wholesalers?

Middleman Is Shown to Fill Definite Need in Business

By T. R. Carskadon, Chief, Education Department,
The Twentieth Century Fund, New York City

Q A favorite sport with amateur critics of the distribution system is to blame the "middleman" for all the real or fancied ills of the system. If only we could "eliminate the middleman" everything would be lovely.

But just what is this middleman? Would it really be possible to get along without him? Let's look at some of the facts.

When we come down to actual figures we find—probably to the surprise of many of the volunteer critics—that the wholesaler, or middleman, counts for less than one-fifth of the total cost of distributing goods from producer to consumer. This was the finding of the research staff which recently made a survey of the costs of distribution for The Twentieth Century Fund. The survey was a comprehensive effort to map costs throughout the system, and it has aroused a great deal of interest among producers, distributors and consumers alike.

One of the central findings of the survey was that, on an average, it costs more to distribute goods than to make them. Out of every dollar the consumer spends for finished goods, approximately 41¢ represents the cost of production and 59¢ the cost of distribution.

The Middleman's "Take"

When we break down the distribution dollar, we find that only 18¢ of it goes for the services of intermediary wholesale trade. This compares with retail trade costs of 33¢; manufacturers' distribution costs of 24¢; and transportation costs of 23¢. Miscellaneous distribution costs make up the remaining 2¢. Thus it is obvious that the middleman adds less to the total cost of distribution than many persons have thought.

Out of the distribution dollar, the 18¢ that goes to intermediary trade covers all its costs of capitalization, operation and services, as well as profits. On this last item, again, we run into popular prejudices. Among uninformed laymen there is a widespread notion that the profits of the middleman are excessive.

Once more it is a good thing to look at the figures. A survey of profits in various wholesale trades indicates that wholesale grocers earned 1.3 per cent on sales in 1936; confectionery wholesalers made 2.2 per cent; dry goods wholesalers earned 2.7 per cent; while profits of paint and varnish wholesalers run as high as 4 per cent of sales. All these figures, it should be pointed out, relate to operations in a fairly profitable year. During the depression years from 1930 or 1931 to 1934 or 1935,

a considerable portion, if not the majority, of distributors showed a net loss on their operations.

Verdict on the Wholesaler

The Twentieth Century Fund survey deals directly with the question of whether it would be possible to eliminate the wholesaler. The report first lists some of the functions now performed by him:

"Every retailer would have to do business directly with the manufacturer of every article he carries in stock if it were not for the fact that the intermediary dealer performs this function for him. For example, a retail grocer handling from 1,200 to 3,000 items may select his merchandise from a typical wholesaler's inventory of between 10,000 and 20,000 items. An independent druggist who may carry as many as 12,000 articles may buy what he needs from a wholesaler who carries from 40,000 to 60,000 items."

Such considerations led the research staff to the conclusion: "This intermediary function is an essential part of the nation's distributive system. If it were not performed by someone our economy in its present form could hardly exist."

How the Trade Is Organized

If, then, we grant the necessity and usefulness of the wholesaler, it is interesting to examine some of the different kinds of intermediary organization now operating in the field. The Fund survey lists five main types. They are:

1. Independent distributors who take title to the goods, assume the risks of ownership, and sell them to the retail trade, taking their compensation in the form of profits. These are usually known as wholesalers.
2. Middlemen who do not take possession of the goods but act as agents or brokers, taking their compensation in the form of commissions or fees.
3. Wholesaling organizations set up as distinct operating units, but affiliated with either the producer or the ultimate distributor. Manufacturers' sales branches, most of the bulk tank stations, chain store warehouses, and cooperative marketing associations are included in this class.
4. Specialized intermediaries in certain commodity fields. These are assemblers and country buyers who operate in agricultural regions either independently or on a commission or salary basis and may be affiliated with the producer or ultimate distributor.

- butor.
5. Manufacturers themselves, who often perform the functions of intermediaries directly, and, insofar as they do, should be included in this list.

Is the Old-line Wholesaler Holding His Own?

Among these types, some are newer than others and some appear to be growing faster than others. In recent years a great deal of attention has been given to the taking over of the wholesale function by chain store warehouses and similar establishments; by the setting up of voluntary wholesaling organizations; and by the extension of the activities of manufacturers into the wholesale field. Such developments are striking and have led to an examination of the role now being played by the traditional wholesale merchant.

On this point The Twentieth Century Fund survey says:

"At one time the retail storekeeper depended almost entirely on the conventional wholesaler for the bulk of his merchandise requirements. Over a period of years, however, the conventional wholesaler has been losing ground, as evidenced by the failure of many long-established wholesale businesses. Contributory causes of this decline have been the rapid increase in chain store business with the consequent elimination of the traditional wholesaler's services, and the tendency of many manufacturers to expand their direct selling activities to department stores and other retail outlets. "In 1929, total sales of conventional wholesale merchants accounted for 36.8 per cent of the total volume of intermediary trade, while the business passing through manufacturers' sales branches and chain store warehouses together accounted for 26.5 per cent. By 1935, although the wholesale merchant still maintained his position as the most important branch of the intermediary trade, his share had declined to 32.2 per cent while the other two groups controlled 29 per cent. While the sales branches of manufacturers sell to wholesalers to some extent, by far the largest percentage of their business is done with retailers or industrial establishments."

Costs of Doing Business

After noting the volume of business done by the conventional wholesale merchant in comparison with some of the other leading kinds of establishment, it may be interesting to look at their cost ratios.

A study based on the figures for 1935, the latest year for which complete statistics are available, showed that the operating costs of wholesale merchants amounted to 13.2 per cent of net sales. This compares with manufacturers' sales branches carrying stocks which showed a cost ratio of 11.8 per cent of sales. Chain store warehouses, largely because of the very limited sales effort required of them and the limited services offered by them, showed a cost ratio of 4.1 per cent of sales. In the field as a whole, mail order wholesalers showed the largest expense ratio, 21.4 per cent; and brokers (who have no expenses of handling) the smallest, 1.3 per cent. These figures, of course, can't be taken as a measure of comparative efficiency. They have to be judged in the light of services performed; and the services of some types of wholesaler are obviously much more extensive, and therefore more costly than others.

The Twentieth Century Fund survey went into the question of just what constituted the major operating expenses in intermediary trade. The survey cites a study of twenty-four different lines of business and makes a functional analysis of expenses.

Selling and Other Costs

Selling expenses are found to be the largest item, with administrative costs nearly as great. These two items, consisting largely of wages and salaries, together made up about 57 per cent of the total cost of doing business. Next in importance were occupancy, warehousing and delivery expenses, each accounting for 10 to 11 per cent of total expenses. Miscellaneous costs made up the remainder.

It should be remarked that the ratios given are averages for the field as a whole. In any particular line of trade there may be a considerable variation from the average. Throughout all lines, however, selling expense is found to be one of the most important items. A substantial part of "administrative expense" also might properly be charged to selling. A Dun and Bradstreet analysis of operating expenses of wholesalers in seven different kinds of business in 1936 shows that selling accounts for 25 to 40 per cent of all costs, depending upon the individual trade. Findings of the Harvard Bureau of Business Research tend to support the same conclusions.

Factors Affecting Costs

More complete figures about costs in specific lines of trade are contained in the full text of The Twentieth Century Fund report, which is published under the title of *Does Distribution Cost Too Much? — A Review of the Costs Involved in Current Marketing Methods and a Program for Improvement*. The authors of the report are Paul W. Stewart, who directed a good part of the research work, and Dr. J. Frederic Dewhurst, Economist of the Fund. Louise Field assisted in preparing the book. In the section on operating costs in intermediary trade, an effort is made to analyze some of the chief factors that affect costs. Six such factors are listed.

1. Size of Establishment

It is found that the size of the wholesaling establishment often has a marked influence on costs. Generally speaking, the smallest businesses have relatively high operating costs. The costs drop sharply for the medium-size companies and then tend to flatten out sometimes rising slightly for the largest companies. For groceries and other foods, for example, companies doing an annual business of less than \$10,000 showed a cost ratio of nearly 20 per cent. This compares with companies in the \$50,000 to \$100,000 group that showed costs of approximately 14 per cent. The lowest expense ratio was in the firms doing annual business between \$300,000 and \$500,000, these showing a ratio of around 9 per cent; whereas the largest establishments, doing an annual business of \$2 million and over, showed cost ratios of about 11 per cent.

A survey of automotive and equipment wholesalers shows that relatively small firms (with sales under \$100,000) had operating costs of over 29 per cent in 1936. Costs drop to less than 26 per cent for the next larger size-group, and go down to about 21 per cent for the largest firms in this field.

Statistics of the 1935 Census for wholesalers in groc-

eries, clothing, dry goods, drugs, electrical goods, furniture and hardware show pretty much the same trends. Cost ratios decline as the size of the business increases — at least up to a certain point. In drugs, dry goods, furniture and hardware there is shown a steady decline up to the \$2 million-size business. It is notable that after a certain point is reached costs apparently cannot be reduced further, and in fact often tend to rise again. In all but two of the lines mentioned above — clothing and electrical goods—wholesalers doing over \$2 million worth of business show slightly higher operating expense ratios than those in the next lower size-group.

2. Population Density

The second factor affecting costs is population density. The 1937 Dun and Bradstreet report on the confectionery trade is cited to show that wholesalers in the relatively populous New England states had an expense ratio of about 9 per cent, in contrast with 14 per cent for companies in the southern states. The same survey also showed that wholesalers with customers concentrated within a hundred-mile radius ran their organizations at an average expense of from 12 to 13 per cent of sales, while those with a more extended territory had costs above 17 per cent.

3. Size of Accounts

A third factor — and one that is too often overlooked — is the size of the individual account. The Fund survey finds that many merchants, in their zeal for volume, forget that small unprofitable accounts drastically increase their operating expense. An example is given of one relatively efficient drug wholesale merchant who found that a third of his customers bought less than \$10 worth of merchandise in a year. The total purchases of this third represented only 0.2 per cent of his business. When operating expenses were studied, it was found that the actual cost of carrying and servicing these accounts was twice the amount of money received from them.

4. Diversity of Goods Carried

The fourth factor in operating expenses for wholesalers is the influence of different lines of goods that he may carry. In the Dun and Bradstreet study of confectionery merchants it is found that there is a marked contrast between those doing most of their volume in strictly candy lines than those doing up to a third of their business in candy and the remainder in tobacco products. The average expense of running the candy business was 15 per cent of sales; and in the candy-tobacco combination, 6 per cent of sales.

5. Turnover of Stock

A fifth factor that influences cost is the rate of inventory turnover. Carrying a large variety of stock is almost sure to involve higher expenses because of slower turnover, greater warehousing expense, less quantity discounts because of small unit purchases, and a larger markdown on distress lots. A Department of Commerce study shows that a typical wholesale grocer in his eagerness to overcome sales resistance, stocked two and a half times the number of items carried in a typical grocery chain store warehouse. Such a policy inevitably tends to raise costs.

The Fund report is careful to point out, however, that low operating costs do not always accompany a rapid

Because of duplication of service and because of the demands made by the National Defense Program, the Bureau of the Census announced early in August that it would be necessary to discontinue the monthly survey which the Department of Commerce has been making with the NACM for the past few years. *This discontinuance affects only the gathering of statistics of manufacturers.*

The wholesalers' survey, covering sales, collections, accounts receivable and inventories, will continue and will be published regularly in Credit and Financial Management as heretofore. It will, as usual, be found on the last three pages of the issue.

In making known the decision to discontinue the manufacturers' portion of the survey, W. L. Austin, Director of the Bureau of the Census, wrote that the Bureau had communicated with a representative number of Association member firms who were cooperating in the survey and informed them of the necessity of discontinuing the service.

From their replies it was evident that in general they recognized the necessity and, consequently, were not opposed to the action because of the reasons given for the discontinuance, especially in view of the fact that the Monthly Industry Survey of the Bureau of Foreign and Domestic Commerce is being continued.

turnover. A confidential study of dry-goods wholesaling shows that although the larger establishments as a rule have greater turnover than the smaller houses, within any one size-group the individual firms with rapid stock-turns do not always have lower operating expense ratios.

6. Credit Operations

The sixth factor affecting costs is credit operations. Since credit operation depends so much on individual and personal factors it is difficult to arrive at even an approximation of its cost in general.

However, the 1933 Wholesale Census shows that 30 per cent of all intermediary concerns which did not grant credit had smaller total operating expenses than the 70 per cent that did. Aggregate operating expenses of the credit-granting group were about 13 per cent of net sales, while the comparable figure for establishments not reporting a credit business was about 7 per cent.

Again it is necessary to insert a caution that while these figures indicate a general tendency, they do not by any means hold true in every case. Dun and Bradstreet survey in 1937 showed that expenses of confectionery wholesalers tended to rise in proportion to the amount of credit business they did; but a study of paint and varnish houses for the same year shows just the opposite relationship.

An Orchid to the Trade

The very mention of the foregoing six factors affecting costs of doing business in intermediary trade emphasizes the extent and variety of the services performed by this section of the distribution system. There is no doubt that the wholesaler performs a vital service in our economy.

Bad-Debt Loss Survey, 1939 — Part II

Wholesalers and Manufacturers

(Continued from August Issue)

Prepared in the Credit Analysis Unit, Marketing Research Division,
Bureau of Foreign and Domestic Commerce

Figure 1 and table 3 reveal a characteristic inverse relationship between bad debts and size of business, with the largest losses being incurred by wholesalers with the smallest sales volume, and the ratios declining progressively with each lower sales-volume group. A probable governing factor is that the larger companies have more complete credit departments and are in the most advantageous position to select as well as supervise their credit risks.

Figure 1 indicates that wholesalers in the lowest annual sales-volume classification, sales under \$50,000, almost doubled their average loss per dollar of credit sales last year, with the ratio for the group advancing from 0.72 percent in 1938 to 1.38 percent in 1939, the highest ratios recorded. Ratios for only a few kinds of business in this lower sales classification could be shown in table 3, but in the majority of them a sharp advance in the loss percentage is noted.

Two more of the eight size classifications, representing wholesale firms with annual sales of \$100,000-\$200,000 and \$300,000-\$500,000, averaged slightly higher losses in

1939. Elsewhere, moderate decreases are shown, except in the \$50,000-\$100,000 sales group, where the ratio dropped sharply from 0.86 percent in 1938 to 0.69 percent in 1939, in contrast with the much higher losses averaged by firms with sales under \$50,000. For both groups of firms with sales under \$100,000, results may be conditioned by the comparatively small size and limited distribution of the samples.

When bad-debt losses of wholesalers are grouped according to size of credit sales per account (fig. 3 and table 5) the resultant pattern is similar to that for the sales-size groups, as demonstrated in figure 1. Firms averaging \$250 or less per account reported the greatest loss, with the loss ratios declining for each successive increase in average size of account. All except the highest account classification, where the ration remained unchanged at a point considerably below the general average for all wholesalers, showed reduced average losses from 1938 to 1939.

The diminution of bad-debt losses with increasing size of business and size of sales per account was further

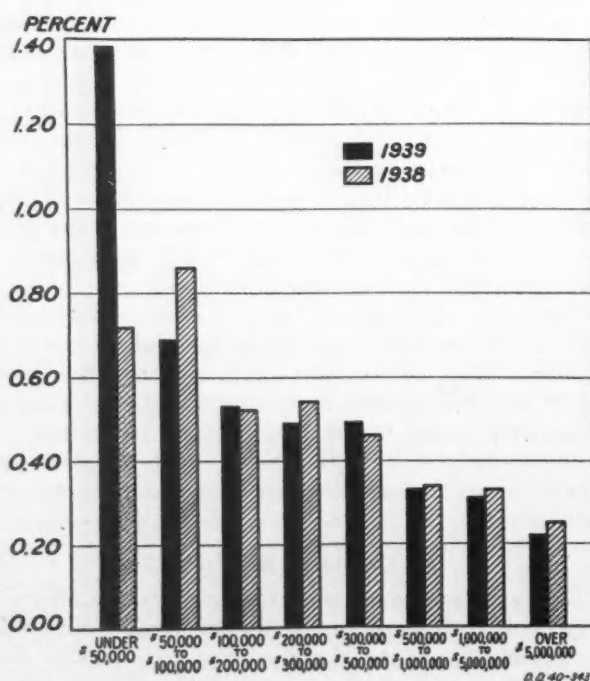


Figure 1.—Bad-Debt Loss Percentages of Wholesalers by Sales Size Groups

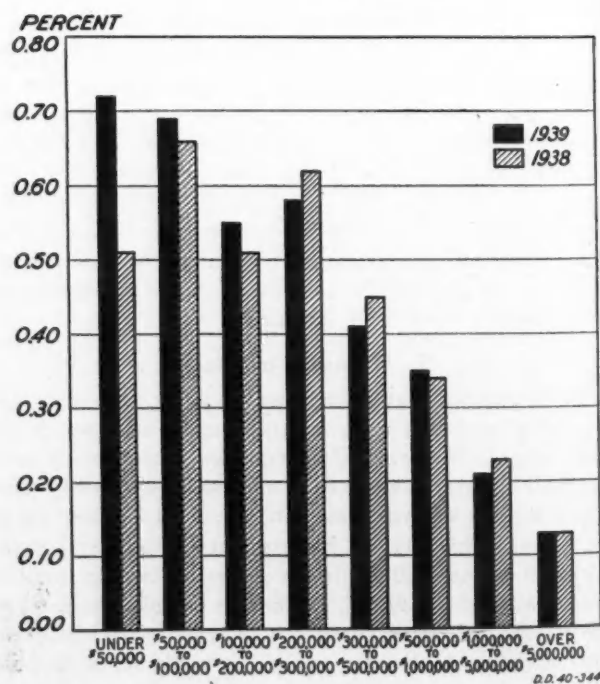


Figure 2.—Bad-Debt Loss Percentages of Manufacturers by Sales Size Groups

Table 3.—Proportion of Bad-Debt Losses to Credit Sales of Wholesalers, by Kinds of Business, Classified by Size of Establishments, 1939 and 1938

Kind of business	Total of all groups			Size groups (based on total sales for 1939)											
	Number of reports			\$5,000,000 and over		\$1,000,000 to \$5,000,000			\$500,000 to \$1,000,000			\$300,000 to \$500,000			
		1939	1938	Number of reports	1939	1938	Number of reports	1939	1938	Number of reports	1939	1938	Number of reports	1939	1938
Automotive supplies.....	156	0.53	0.68				4	0.36	0.70	12	0.59	0.63	23	0.53	0.73
Chemicals (industrial).....	17	18	20				5	12	19	3			2		
Paints and varnishes.....	28	34	27	1	*	*				1	*	*	6	.21	.29
Clothing and furnishings (except shoes).....	40	32	32	1	*	*	7	17	18	2	*	*	4	.64	.73
Shoes and other footwear.....	34	33	41	1	*	*	10	34	52	7	.42	.63	3	*	*
Coal.....	9	18	11				6	14	13	1			2		
Drugs and drug sundries.....	66	33	35	3	*	*	34	38	43	11	.36	.20	8	.19	.22
Without liquor department.....	51	28	31	3	*	*	23	35	39	9	.28	.19	6	.19	.29
With liquor department.....	15	44	46				11	44	49	2			2		
Dry goods.....	108	27	31	1	*	*	30	22	26	25	.43	.45	18	.65	.64
Electrical goods.....	217	24	24	4	0.11	0.12	48	32	29	18	.38	.26	20	.64	.34
Farm products (consumer goods).....	89	27	25	1	*	*	7	24	16	17	.22	.28	14	.47	.54
Dairy and poultry products.....	14	17	14	1	*	*	2			5	.35	.35			
Fresh fruits and vegetables.....	75	33	32				5	27	16	12	.18	.24	12	.50	.60
Furniture and house furnishings.....	52	33	40	1	*	*	9	40	28	12	.38	.43	8	.58	.41
Confectionery.....	20	39	40				1			2	*	*	4	.33	.32
Meats and meat products.....	56	25	25	1	*	*	11	20	21	19	.40	.35	9	.19	.32
Groceries and foods (except farm products).....	480	30	33	15	.24	.34	122	29	31	118	.35	.30	100	.49	.36
Full-line wholesale grocers.....	245	32	30	4	.31	.28	56	30	27	61	.36	.34	65	.33	.32
Voluntary-group wholesale grocers.....	119	33	39	8	.32	.43	46	31	39	44	.36	.26	20	.52	.47
Retailer-cooperative wholesale grocers.....	13	05	05				8	04	04	4	.18	.13			
Specialty-line wholesale grocers.....	103	29	35	3	*	*	12	40	.43	9	.40	.28	15	1.27	.42
Beer.....	14	50	56										1		
Wines and spirituous liquors.....	19	47	34	1	*	*	1	*	*	6	.26	.39	8	.67	.29
Hardware group.....	402	39	39	9	.34	.27	83	37	36	85	30	.40	66	.53	.59
General hardware.....	132	35	41	6	.20	.28	48	38	.41	41	39	.45	21	.62	.77
Heavy hardware.....	29	16	26				5	07	10	4	.36	.48	5	.37	.84
Industrial supplies.....	153	40	29	2	*	*	16	33	.23	30	19	.25	25	.35	.30
Plumbing and heating supplies.....	68	59	54	1	*	*	14	52	.42	10	.25	.54	15	.75	.73
Jewelry.....	36	50	71	1	*	*	6	36	.83	4	.59	.32	8	.60	.83
Lumber and building materials.....	40	35	44				9	27	.32	9	.39	.38	7	.52	.81
Machinery, equipment, and supplies, except electrical.....	65	69	85				4	1.00	1.25	9	.47	.77	13	.72	.82
Surgical equipment and supplies.....	32	18	08				1			2	*	*	2	*	*
Metals.....	20	22	30	1	*	*	5	22	.40	3	*	*	6	.32	.55
Paper and its products.....	84	40	39	3	*	*	11	.43	.23	22	.25	.25	15	.29	.22
Petroleum.....	11	18	17	4	.15	.14	2	*	*	1	*	*	1	*	*
Tobacco and its products.....	120	19	23	3	*	*	28	.19	.21	38	.17	.21	23	.24	.32
Leather and shoe findings.....	11	54	37							1	*	*			
Miscellaneous.....	57	33	39	4	.32	.43	8	.22	.29	6	.16	.11	9	.66	.45
Total.....	12,283	.31	.33	55	.22	.25	452	.31	.33	434	.33	.34	380	.49	.46

Kind of business	Size groups (based on total sales for 1939)											
	\$200,000 to \$300,000			\$100,000 to \$200,000			\$50,000 to \$100,000			Under \$50,000		
	Number of reports	1939	1938	Number of reports	1939	1938	Number of reports	1939	1938	Number of reports	1939	1938
Automotive supplies	17	0.54	0.74	43	0.51	0.60	38	0.56	0.74	19	0.81	0.91
*†Chemicals (industrial)	6	.30	.17				1					
Paints and varnishes	3			6	1.29	.82	8	1.34	2.44	3		
Clothing and furnishings (except shoes)	5	1.42	1.15	12	.49	.71	8	.90	.62	1		
Shoes and other footwear	5	.59	.95	6	.40	.72	2					
Coal												
Drugs and drug sundries	4	.33	.63	5	.10	.43	1					
Without liquor department	4	.33	.63	5	.10	.43	1					
With liquor department												
Dry goods	9	.41	.48	16	.56	.63	7	.47	.65	2		
Electrical goods	14	.45	.60	27	.56	.50	9	.88	.57	3		
Farm products (consumer goods)	19	.53	.41	16	.37	.34	13	.76	.61	2		
Dairy and poultry products	3			1								
Fresh fruits and vegetables	16	.59	.44	15	.31	.32	13	.76	.61	2		
Furniture and house furnishings	6	.19	.44	9	.62	.94	4	.38	.30	3		
Confectionery	8			8	.70	.78	4	.81	.37	1		
Meats and meat products	5	.39	.76	6	1.25	1.22	3			2		
Groceries and foods (except farm products)	48	.37	.47	42	.43	.55	23	.97	1.40	12	1.62	.74
Full-line wholesale grocers	30	.36	.37	16	.34	.34	8	1.02	.95	5	1.48	1.04
Voluntary-group wholesale grocers	1											
Retailer-cooperative wholesale grocers	1											
Specialty-line wholesale grocers	16	.44	.72	26	.51	.72	15	.94	1.65	7	1.70	.51
Beer	2			6	.75	.52	3			2		
Wines and spirituous liquors				1			2					
Hardware group	62	.68	.68	55	.68	.55	31	.46	.81	11	.60	.30
General hardware	9	.63	1.04	3			3			1		
Heavy hardware	6	.05	.32	5	.43	.18	2			2		
Industrial supplies	29	.56	.66	28	.33	.38	16	.45	.69	7	.56	.11
Plumbing and heating supplies	18	1.13	.60	19	1.12	.63	10	.46	1.21	1		
Jewelry	3			10	1.11	.90	2			2		
Lumber and building materials	8	.66	1.11	6	.33	.40	1					
Machinery, equipment, and supplies, except electrical	6	.09	.16	17	.38	.31	8	.40	.27	8	2.14	.0
Surgical equipment and supplies	3			17	.27	.19	6	.59	.24	1		
Metals	2			3								
Paper and its products	12	.31	.33	9	.25	.16	8	1.41	1.68	4	.35	.99
Petroleum	1			1			2			4	.65	.68
Tobacco and its products	11	.16	.40	11	.13	.10	2			1		
Leather and shoe findings	2			3			4	.63	.60	1		
Miscellaneous	10	.50	.31	8	.23	.33	6	.97	1.29	6	4.80	1.87
Total	262	.49	.54	343	.53	.52	196	.69	.86	87	1.38	.72

*Bad-debt-loss percentages not shown for samples of fewer than four firms.

†Multiple-unit firms which could not give break-downs by houses are included in grand totals but not in size-group classifications.

borne out by the cross classification of these two factors (see table 7). When analyzing each sales-volume size classification according to size-of-account groups, losses were generally reduced as the size factors increased in magnitude.

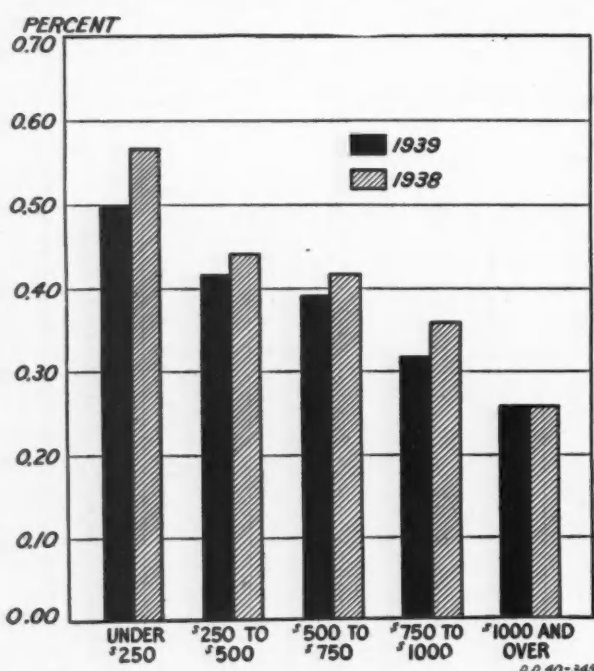


Figure 3.—Bad-Debt Loss Percentages of Wholesalers by Average Credit Sales per Account

Manufacturers.—Bad-debt losses of manufacturers classified by sales-size groups in figure 2 and table 4 reveal the same inverse relationship between percentage of loss and sales volume as wholesale establishments. Decreasing loss ratios with each successive increase in sales volume is found to hold true in the principal industrial

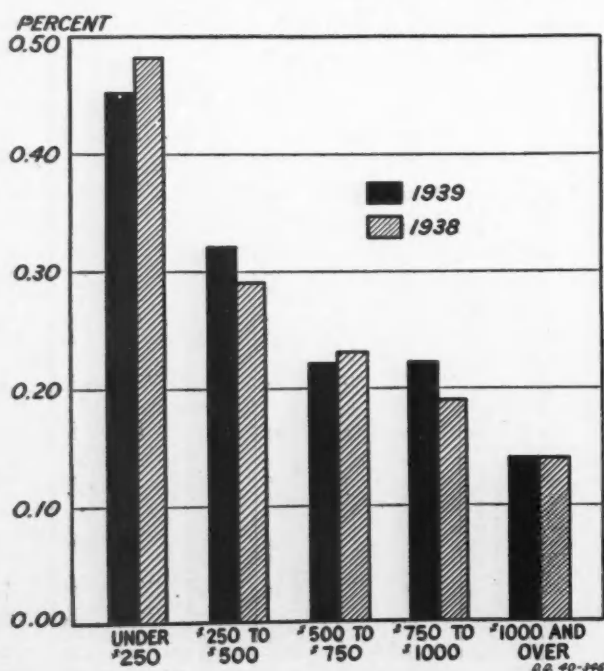


Figure 4.—Bad-Debt Loss Percentages of Manufacturers by Average Credit Sales per Account

groups and subgroups in table 4, although in all cases deviations from the general trend are found.

Manufacturing firms in three groups representing annual sales up to \$200,000 averaged higher losses in 1939, with the relatively small group of firms having sales under \$50,000 showing the largest loss ratios and the greatest increase in the ratio from 0.51 percent of credit sales in 1938 to 0.72 percent last year. A similar sharp advance was noted for the same sales-size group of wholesalers. One other group, including manufacturing firms with annual sales of \$500,000 to \$1,000,000, also increased their average loss slightly in 1939, leaving three groups with moderately lower average-loss ratios for the year, and the largest firms, those having sales over \$5,000,000, with no change in their average-loss ratio.

Although the general-average loss percentage for manufacturers was much lower than that for wholesalers in 1939, it is noted, in comparing the 1939 ratios in figures 1 and 2, that manufacturers in the sales-volume groups from \$500,000 to \$1,000,000 and from \$100,000 to \$200,000 averaged a loss 2 cents higher per \$100 of credit sales in 1939 than that for the same size groups of wholesalers. Furthermore, comparison of the \$200,000-\$300,000 sales-volume groups discloses that the manufacturers lost 8 cents more than the wholesalers per \$100 of credit sales last year.

Analyzed according to average credit sales per account, as shown in figure 4 and table 6, loss ratios averaged by manufacturers range from high to low, following increased size of account. As in the comparison of wholesalers, shown in figure 3, firms in the highest account-size classification, which had the lowest average loss, disclosed no change in their ratio from 1938 to 1939. In other groups, however, manufacturers did not reveal the uniformly lower loss ratios shown by the account-size groups of wholesalers, with two of the remaining four groups of manufacturers averaging slightly higher losses in 1939.

In connection with the previous observation that, despite lower general-average losses for all reporting firms, some groups of manufacturers classified by annual sales volume averaged higher losses than corresponding groups of wholesalers, comparisons of identical groups of wholesalers and manufacturers in tables 5 and 6 show that all wholesalers in the size-of-account groups averaged higher losses than manufacturers in corresponding groups.

Comparisons by Geographic Regions

The arrangement of manufacturers' bad-debt losses by size of credit sales per account under size-of-business classifications is a further illustration of the inverse relation of losses to size of account also noted in a similar analysis for wholesalers in that table. In each size-of-account classification it is also observed that there was a progressive tendency for losses to decrease from the small to the large firms. No doubt the underlying cause would be found in the more rigid credit supervision which can be established by firms of larger size.

Owing to the general nation-wide scope of operations, as well as frequent inability to provide data classified by geographic area, reports of manufacturers are not analyzed by region in this study. A regional comparison of the loss experience of wholesalers is shown, however.

Proportion of Accounts Written Off and Gross Loss Per Account

In an earlier section of this analysis, it was noted that wholesalers reported a fractional increase in average number of accounts per firm last year, while manufacturers, who have doubled the average number of accounts reported by wholesalers, disclosed an increase of almost 5 percent from 1938 to 1939 in average number of accounts per firm. Increased credit sales in 1939, however, raised average credit sales on wholesalers' accounts from \$666 in 1938 to \$707 in 1939, with average sales on manufacturers' accounts advancing from \$949 to \$1,016 for the respective years.

Wholesalers.—As shown in table 1, all reporting wholesalers charged off an average of 2.79 percent of their total number of accounts in 1939, representing a decrease from 2.89 percent of total accounts in 1938. Perhaps conforming to slightly larger credit sales per account in 1939, the average gross loss on wholesalers' accounts written off last year was \$99, compared with \$98 for 1938.

Manufacturers.—Manufacturers similarly averaged a decrease in proportion of accounts written off from 2.13 percent of total accounts in 1938 to 2.04 percent in 1939. However, with about the same average increase in credit sales per account as was shown by wholesalers, manufacturers' average gross loss per account advanced to \$100 in 1939 from \$94 in the preceding year. The higher average gross loss per account reported by manufacturers reflects, of course, the fact that, despite a smaller proportion of accounts written off in 1939, manufacturers' aggregate gross losses gained more than 7 percent last year, whereas wholesalers' gross losses were up less than one-half of 1 percent.

Further data on percent of accounts written off and average gross loss per account by individual trades and industries will be found in tables 1 and 2. While average credit sales per account has been noted as an important controlling factor in bad-debt-loss measurement, percent of accounts written off and average gross loss per account may be regarded as significant elements for further study and comparison.

Age Analysis of Accounts Written Off

In previous sections of this report it has been noted that the changes in bad-debt-loss ratios from year to year may reflect many types of relative movement in the several factors which enter into their computation. As an example of what may occur with no change whatever in the absolute dollar amount of the gross charge-off from one year to the next, variation in the magnitude of recoveries, or a normally anticipated change in credit-sales volume, will produce entirely different loss ratios between the two years. Without citing further illustrations, it may also be said that there are a great many combinations arising from relative changes in the magnitude of sales, gross losses, and recoveries, which can produce identical loss ratios.

This points to the fact that comparisons of bad-debt-loss ratios, while representing generally accepted-rule-of-thumb guides for loss comparisons, are apt to be misleading unless each ratio carries with it a full explanation of its basic components. Individual business firms cannot safely compare their own bad-debt-loss results, expressed

in standard ratio form, unless they have all of the supplemental facts expressing percentage change in credit sales, gross losses, and proportion of recoveries.

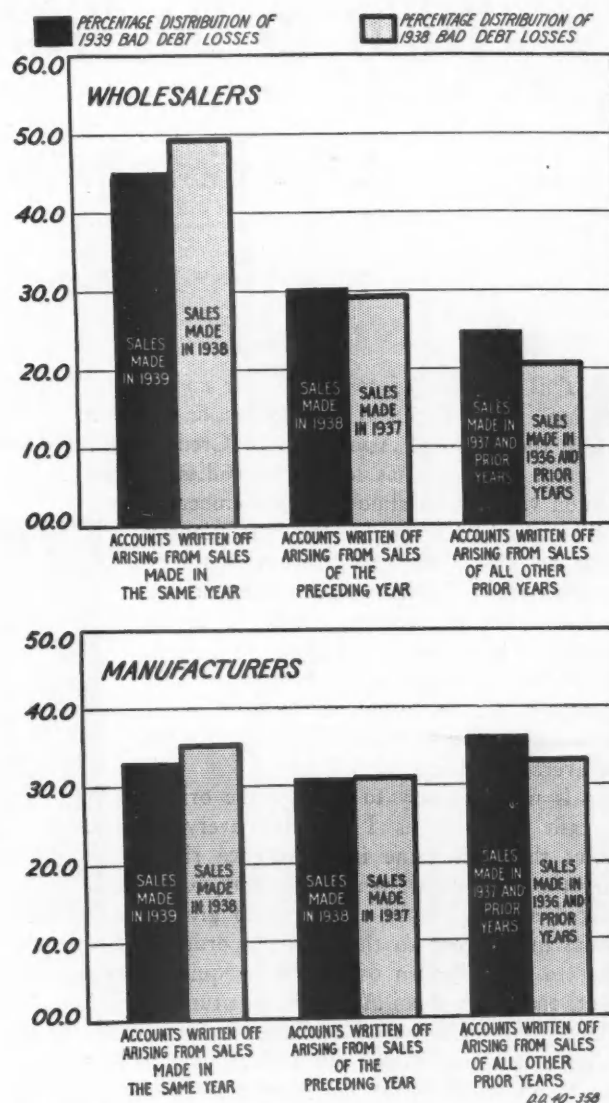


Figure 5.—Age Analysis of Accounts Written off by Wholesalers and Manufacturers, 1939 and 1938

An additional element which is even more disturbing than those noted above with reference to standard bad-debt-loss measurement, is the factor of the composition of the total annual charge-off which, minus recoveries, is computed as a percent of the credit sales of the same year for determination of the loss ratio. The question is, What relation do accounts written off in a given year bear to the actual sales of that identical year? The assumption seems to have been that the relationship is precise, but the facts presented in this analysis do not contribute to that view. Rather, they disclose a fundamental weakness of loss-ratio computation, and indicate that such ratios are more an expression of practical convenience than a sound analytical method.

Briefly, the analysis for 1,890 wholesalers in figure 5 reveals that only 45.2 percent of their gross charge-off in 1939 can be attributed to the credit sales of that year, against which the loss ratio is computed. For 1938, 49.7 percent of wholesalers' gross losses arose from sales in the same year. Average figures (Cont'd on page 40)

What to Do With "Terms Chiselers"

A Confectioner Reviews Types of "Terms Pests"

By B. Frank Fox, Lamont, Corliss & Co., New York City

OF This question of terms of sale and terms "chiseling" is one as old as my recollection of the meetings in the National Association of Credit Men, and in some instances has led to an endless debate as the opinion varies with almost every member.

The standard terms for the confectionery trade are 2% 10 days net 30, but to a very large extent these have been changed, not necessarily on the invoices, but on the terms actually in force, to 2% 15 days.

In some instances, we give terms of 2% 10 days E. O. M., provided the firm makes purchases of five or more bills a month, on the average and has an A-1 rating.

It is not necessary to go into the origin of cash discount, as I presume everyone knows that this came into existence right after the Civil War, when cash was so restricted and it seemed expedient to give a special inducement to the buyer in order to enable the seller to get a return of his money quickly. Cash discount, therefore, is an American institution.

If the customer would realize that he actually is receiving a usurious rate of interest and stop to figure that he gets about 24% for his money, he would be more likely to take advantage of the cash discount privilege and within the time contemplated by the terms.

It has seemed to me that during the past three or four months, "chiseling" has again been on the increase, although I hope that you do not find this condition to be quite as bad as I have. Our main objection is to the habitual "chiseler" and it is he whom we are trying to eliminate.

(a) One of the common ways in which the "chiseler" works is to send his check unsigned or incomplete in such form that it is not possible to correct it.

(b) A check is dated in time, but the book-

keeper neglects to mail it and when the lateness is brought to the customer's attention, the bookkeeper claims that he or she will have to pay the discount, personally.

(c) Bills are accumulated and then averaged by dates, not by amounts which, of course, is most unfair as in averaging both date and amount should be taken into consideration.

(d) Count the discount days from the time the merchandise is received. Our own terms state explicitly "10 days from date of invoice."

(e) Eliminate Sundays and Holidays.

(f) Anticipation—We return all checks where anticipation is taken, as it is impossible for money to earn 6% today, or anything like it. Since we cannot get any interest on our de-

posit from our banks, we are not willing to pay it to our customers.

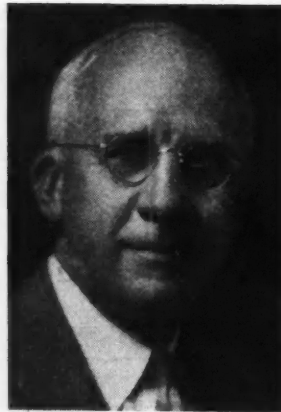
(g) Customers figure the cash discount before deducting a credit, when it is altogether likely that they have returned a considerable portion of the merchandise for which he is paying.

(h) They increase the discount by 3¢ to 10¢ for mailing costs which, of course, includes not only the stamps but the envelopes.

(i) Invoices lost—An old excuse but still in common use.

(j) Department Stores specify invoices from the 25th to the 31st to be dated as the 1st of the following month, in order to gain more time in which to pay for their bills.

(k) "Insufficient Funds"—Customers, without a doubt, frequently send out checks knowing that they will be returned.



Fortunately, this form of chiseling has been eliminated to a large extent by the customers' banks making a charge of \$1.00, more or less, against them for the clerical work in connection with the return of a check for insufficient funds.

Solution—it seems to me that one way to end all this "chiseling" and the correspondence which has to be carried on, as well as the fraying of nerves on the part of both buyer and seller, is to eliminate cash discount and sell only on a net basis.

Very often the salesman condones "a few days late," not taking into consideration that this has become habitual with his customer and, to a considerable extent, is due to his sympathizing with him.

Methods of Handling Chiselers—Our practice has been to have a tactful but firm policy, returning checks from customers whose ratings would seem to make it safe, holding checks and writing for additional remittances on those accounts which are not well rated; and putting re-

mittances through "short" the cash discount, sending a charge for the deduction. This has had a rather good effect in that we have had these bills included in later remittances, although some customers have objected to them.

It has been our policy to allow the deduction in the case of first offenders, and if there are not more than two or three late deductions in a year, we do the same; but others are handled as indicated above.

C. O. D. Chiseler—This form of "chiseler" declines to pay the C. O. D. charge. He also declines to pay the storage or demurrage occasioned by the fact that he was not able to pick up the shipment in time. He gives the trucking company a check made payable to us and the trucking company then sends it along, asking us to pay them for the charge which they make for C. O. D.'s. Later we find that the check is returned because of "insufficient funds."

High Cost of Cash Discounts

By W. H. Conant, Special Writer in Barron's Weekly

CASH DISCOUNTS are so deeply rooted that many merchants think of them as one of the white man's burdens. They've come down to us from other times when the tempo of business was milder and the access to funds less easy.

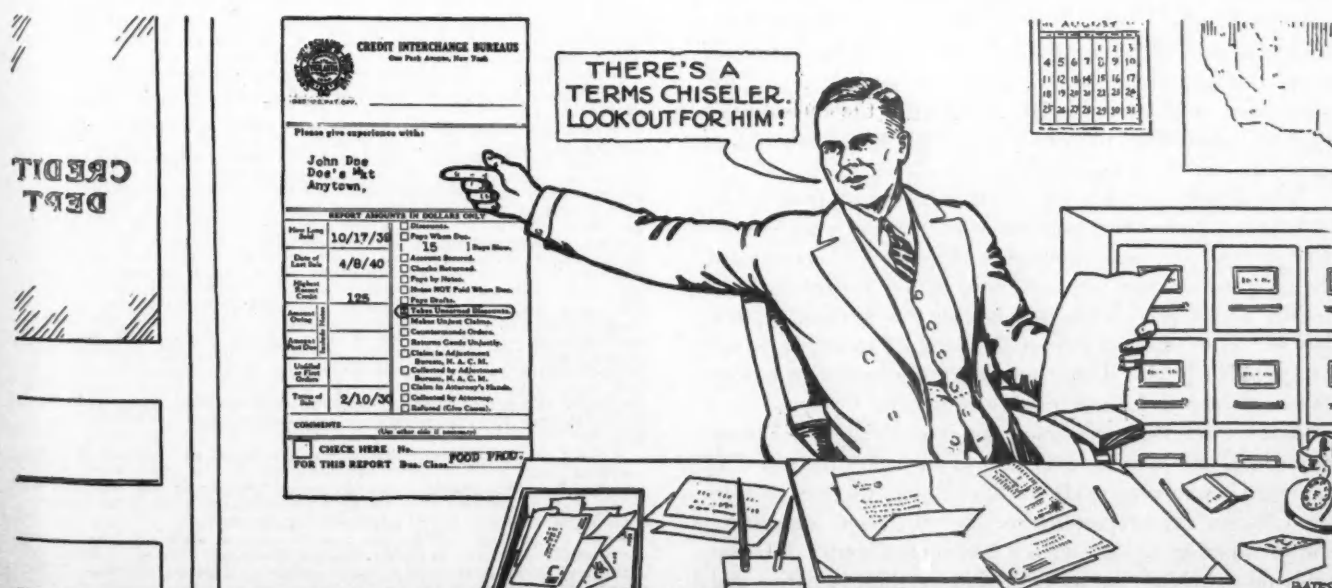
The simple arithmetic of it proves beyond peradventure of doubt that no one can afford now to give them. Maybe it's elementary, but there's no harm in reviewing it. Two per cent in 10 days on regular 30-day terms means paying 2% for the period from the 11th to the 30th, or 20 days, which is 36% per annum. And if the nominal 10 days is actually 12 or 15, as so often happens, it means 39.6% to 48%.

As for the 10th-proximo payers, who get this same 2%, the cost of our use of the money is almost fantastic. The average time of payment for a series of invoices dat-

ing from the first to the 31st and paid on the 10th of the following month, is 25 days, which means paying 2% for the use of the money for five days. And 2% for five days is 144% per annum. This is an extravagant way to borrow money.

Just one more bit of arithmetic and we're finished. This 2% of course, is on the selling price. What is it on the net profit? If our mark-up, our profit margin, be 20+ the cash discount is 10% of the profit. If the profit margin is but 10%, this same cash discount becomes 20% of it. That certainly seems like too generous a gesture to invite early payment unless there is something wrong with these figures. Is there?

Why must we have cash discounts at all? We sell our goods only on approved credit. We count on just about every bill being paid. The people (Cont'd on p. 29)



Reorganizations Under Chandler Act—Part II

Recent Developments in Chapter XI Cases

Discussion of Chapter X Cases was presented in Part I in August

By John Gerdes, of Gerdes & Montgomery, General Counsel,
National Association of Credit Men.

Chapter XI applies to corporations as well as individuals,⁶⁶ but is more limited in scope than Chapter X. Under it only unsecured indebtedness may be readjusted;⁶⁷ neither secured debts nor stock interests may be affected.⁶⁸

There is no definition or limitation in either Chapter X or XI which clearly indicates the type or size of corporation which ought to be reorganized under their respective provisions.⁶⁹ In an effort to avoid the necessity of a disinterested trustee, the interposition of the Securities and Exchange Commission as a party, and the relatively complicated procedure prescribed by Chapter X, many large corporations have sought to reorganize under the provisions of Chapter XI rather than Chapter X.⁷⁰

Interesting litigation, intended to determine the extent of the limitations, if any, upon the right to use Chapter XI as a vehicle for corporate reorganization, is now pending. The *United States Realty and Improvement Company* case,⁷¹ which was recently argued in the United States Supreme Court presents the following situation: The debtor owns and manages a number of buildings. It has large outstanding bond and stock⁷² issues held by the public. In addition, it has a considerable contingent liability as the guarantor of a publicly held mortgage certificate issue of a wholly owned subsidiary.⁷³ A petition under Chapter XI was filed solely for the purpose of readjusting and extending the debtor's contingent obligation upon this guaranty.⁷⁴ A separate proceeding under the state law will be initiated to modify the subsidiary's primary obligation to conform to the modification contemplated in the guaranty.⁷⁵

The debtor contends that it may reduce or readjust its obligation under the guaranty, in a proceeding under Chapter XI, without modifying the rights of its secured creditors or stockholders, and that it may utilize the procedure of Chapter XI to accomplish this purpose regardless of the number or size of its issues of securities which are publicly held. This contention has been opposed by the Securities and Exchange Commission.⁷⁶

Aside from the main issue, an interesting preliminary procedural question is involved. The Securities and Exchange Commission made an application to intervene in the Chapter XI proceeding for the purpose of contesting the jurisdiction of the court. Although Chapter XI contains no provision for participation by the Securities and

Exchange Commission, the application for intervention was granted.⁷⁷

⁶⁶ § 306, defines debtor to be a person who could become a bankrupt under § 4 of the Act. § 4 includes corporations as well as individuals.

⁶⁷ See §§ 306 (1), 307, 356.

⁶⁸ Chapter XI mentions only unsecured debts. By implication, therefore, neither secured debts nor stock interests can be altered by an arrangement effected under its provisions.

⁶⁹ It may have been the intention of the sponsors of the corporate reorganization sections of the Chandler Act that large corporations would be reorganized under Chapter X and small corporations under Chapter XI. See H. R. REP. NO. 1409, 75th Cong., 1st Sess. (1937) 50-51. Such a limitation, however, was not incorporated into the Act, except that § 130 (7) provides that a petition filed under Chapter X shall state why adequate relief cannot be obtained under Chapter XI, and § 146 (2) provides that a petition filed under Chapter X will not be deemed to have been filed in "good faith" if adequate relief would be obtainable under Chapter XI. The deficiency of this "anemic straddle", as it has been called by one writer, to accomplish a precise standard of segregation between corporations which may be reorganized under Chapter X and those which may be reorganized under Chapter XI has been generally noted. See Jackson, *supra* note 53; Montgomery, *supra* note 53; Rostow and Cutler, *supra* note 53.

⁷⁰ In *In re Reo Motor Car Co.*, 30 F. Supp. 785 (E. D. Mich. 1939) a petition was filed requesting that the proceeding be removed from Chapter X to Chapter XI. In denying the petition it was held that adequate relief could not be secured under Chapter XI where a corporation had securities outstanding in the hands of the public. This was based upon the assumption that members of the public holding securities of the corporation are entitled to adequate relief as well as the corporation. See also *In re McKesson & Robbins, Inc.*, No. 72,697 (S. D. N. Y. 1939), where although the reorganization involved only unsecured debts, no arrangement could have been confirmed under § 366 because falsification of the debtor's books barred its discharge as a bankrupt. In *In re Majestic Radio & Television Corp.*, No. 71,680 (E. D. Ill. 1939), the Securities and Exchange Commission opposed a petition filed under Chapter XI. By agreement of the parties the proceeding was transferred to Chapter X.

⁷¹ 108 F. (2d) 794 (C. C. A. 2d, 1940), cert. granted, April 1, 1940. See Notes (1940) 17 N. Y. U. L. Q. REV. 254, 49 YALE L. J. 927.

⁷² 900,000 shares of its stock are listed and traded in on the New York Stock Exchange.

⁷³ \$3,710,500 of the guaranteed mortgage bond in which the share certificates were issued was outstanding at the time the petition was filed. Share certificates were held by some 900 holders.

⁷⁴ The petition was filed on the day preceding the date of maturity, when default upon the \$3,710,500 guaranteed bond then outstanding, was inevitable.

⁷⁵ This proceeding was to be instituted under §§ 119-123 of the New York Real Property Law, known as the Burchill Act, which provide for reorganization of property covered by a trust mortgage by means of foreclosure and sale by the trustee, conveyance of the property to a newly formed corporation in return for its securities, and distribution of such securities to parties interested in the mortgage. A plan of reorganization may be presented to the court by the trustee or any persons owning or representing 25% of the securities covered by the mortgage. This plan is binding upon all unless one-third in principal sum of the holders dissent. If the doctrine of the *Boyd* case is applied to proceedings under these sections the debtor would be barred from participation in the reorganization of the subsidiary. It seems quite likely that the New York courts would apply the doctrine of the *Boyd* case in any proceeding under these sections. See *Chase National Bank v. 10 East 40th Street Corp.*, 238 App. Div. 370, 264 N. Y. Supp. 882, 888 (1st Dep't 1933); *Clinton Trust Co. v. 142-144 Jerusalem St. Corp.*, 237 App. Div. 789, 203 N. Y. Supp. 359, 364 (2d Dep't 1933). For a discussion of the status of a parent in the reorganization of its subsidiary, see Rembar, *Claims against Affiliated Companies in Reorganization* (1939) 39 Col. L. Rev. 907.

⁷⁶ The Commission urged that it was the intent of Congress that corporations with publicly held securities should be reorganized under Chapter X. The many safeguards which Chapter X provides for the public investor strongly supports such an argument however inadequately such intent may have been expressed in the Act.

⁷⁷ The Commission first appeared in the case as *amicus curiae*. Later the Commission made its application to intervene. The application was granted in order to give it a better status to urge its objection to the Court's jurisdiction.

After it had been permitted to intervene, the Commission moved to dismiss the proceeding on the ground that the corporation was not a proper one for reorganization under Chapter XI because of the large public holdings of its securities. It contended that the case should have been brought under Chapter X. The District Court ruled against this contention.

The Commission appealed from the order refusing to dismiss the proceeding. The debtor appealed from the order permitting the Commission to intervene in the proceeding. The Circuit Court of Appeals for the Second Circuit, in an opinion by Judge Swan, Judge Clark dissenting, held that the Securities and Exchange Commission had no status in a Chapter XI proceeding and that the court below had erred in permitting it to intervene.⁷⁸ The court also held that the procedure of Chapter XI was not limited to corporations which had no publicly held securities.⁷⁹ It refused to pass upon the question as to whether a plan under Chapter XI may reduce the claims of creditors without disturbing the interests of stockholders. The orders appealed from did not involve this question.⁸⁰

Regardless of the conclusions which the United States Supreme Court may reach as to right of the Securities and Exchange Commission to intervene in Chapter XI proceeding, or as to the jurisdiction of the court in such a proceeding where the debtor has outstanding issues of securities which are publicly owned, it does not seem probable that it will at any time sanction a plan of reorganization under either Chapter X or Chapter XI which preserves the interests of stockholders without payment of new consideration and reduces the claims of creditors.⁸¹

If this view is correct, the question will be raised as to whether a plan of reorganization for an insolvent corporation can ever be consummated under Chapter XI. The answer probably is that it can be done, but only, as a practical matter, where the stock of the corporate debtor is so closely held that it is possible to obtain the unanimous voluntary consent of the stockholders to making some new contribution as consideration for the retention of their stock.⁸² This is extremely unlikely in the *United States Realty Company* situation, where a large publicly owned stock issue is outstanding. There is no power under Chapter XI to compel stockholders to make any contribution; no power to adjust the interests of stockholders.

In addition to uncertainty regarding the type and size of corporations to which Chapter XI is applicable, and uncertainty as to whether plans under it are to be tested by the principles applicable to reorganization rather than applicable to compositions, actual experience with the operation of Chapter XI has shown weaknesses which call for correction.

Since only the debtor may initiate proceedings under Chapter XI,⁸³ small corporations are forced to reorganize under the more elaborate and costly procedure of Chapter X, or to seek liquidation in bankruptcy, if the debtor refuses to initiate proceedings under Chapter XI, or if it refuses to file a fair and equitable plan in such proceedings.⁸⁴ Proceedings improperly initiated under Chapter XI can not be transferred to Chapter X; they must be dismissed, and new proceedings must then be initiated under Chapter X.⁸⁵ The provisions of Chapter XI for

allowance to creditors and stockholders, and their committees and attorneys, for services rendered in the proceedings, are inadequate.⁸⁶

A complete revision of Chapter XI should be undertaken in the near future. The effort to provide one procedure to cover a streamline reorganization of small corporations and a composition for individual debtors, results in inconsistencies which may perhaps be avoided only if separate procedures are provided.

The Los Angeles Lumber Product Co. Case

A significant development in the law of corporate reorganizations during the past few months is the opinion of Mr. Justice Douglas of the United States Supreme Court in *Case v. Los Angeles Lumber Products Co.*⁸⁷

The debtor in that case was insolvent in 1937. Its principal liability consisted of an outstanding issue of \$2,565,500 of first mortgage bonds maturing in 1944. Its other debts were negligible. It had no assets of substance except the shares of stock which it held in a completely owned subsidiary. This subsidiary had no debts of any consequence and its assets were valued at \$830,000. Disregarding the separate entities of the debtor and its subsidiary, the debtor in practical effect had assets of \$830,000 and liabilities of \$2,565,500. It also had outstanding shares of Class A and Class B stock.

Various security holders of the debtor in 1937 agreed upon a voluntary plan of reorganization to which over 80% of the bondholders and over 90% of the stockholders assented. Under this plan the board of directors of the Company was empowered to effectuate the reorganization either by voluntary contract or by a proceeding

⁷⁸ In a similar case, decided shortly after this case, a like result was reached. *In re Credit Service, Inc.*, C. C. H. Bankr. Serv. ¶ 52, 240 (D. Md. 1940).

⁷⁹ *In re United States Realty & Improvement Co.*, 108 F. (2d) 794 (C. C. A. 2d, 1940).

⁸⁰ It was held by the court that this was a matter unrelated to jurisdiction, and it therefore deferred consideration of this point until after the plan had been passed upon by the District Court. 108 F. (2d) 794, 797 (1940). In his dissenting opinion Judge Clark disagreed with the Court in this respect. 108 F. (2d) 794, 800 (1940).

⁸¹ In *Case v. Los Angeles Lumber Products Co.*, 308 U. S. 106 (1939), it was stated by the court that the words "fair and equitable" were words of art which had acquired a fixed meaning through judicial interpretation in the field of equity receivership. In applying this fixed meaning the Court there held, in a proceeding under § 77B, that a plan of reorganization which preserved the interests of stockholders and reduced the claims of creditors was not fair and equitable. It was further stated by the court that the standard of "fair and equitable", as used in § 77B, remains unaltered as one of the criteria necessary for the confirmation of a plan of reorganization under Chapter X. Footnote 14, 308 U. S. 106, 120 (1939). If the words "fair and equitable" are words of art, it seems quite unlikely that the Court will hold that their meaning as used in Chapter XI differs from their meaning in Chapter X.

⁸² See Rostow and Cutler, *supra* note 53, at 1359-1362.

⁸³ §§ 321, 322.

⁸⁴ § 366 (3).

⁸⁵ § 376.

⁸⁶ § 337 (2), provides for the payment of actual and necessary expenses incurred in connection with the proceedings and the arrangement by the committee of creditors and the attorneys or agents of such committee. Two decisions construing this section have created doubt as to what expenses it is intended to cover. In *re Max Fishman, Inc.*, 27 F. Supp. 33 (S. D. N. Y. 1939), an informal creditors' committee, chosen before the first meeting of creditors, retained an attorney and accountant. Services were performed by the attorney and accountant before the first meeting at which the informal creditors' committee was formally elected the creditors' committee. After its election the committee adopted and assumed the expenses and obligations previously incurred by it. The debtor opposed paying the attorney and accountant. It was held that the committee referred to in § 337 (2), meant the committee appointed at the first meeting of creditors and that the court had no power to grant an allowance to a committee for expenses incurred prior to the first meeting of creditors. In *re Fisher Dress Corp.*, C. C. H. Bankr. Serv. ¶ 51,681 (S. D. N. Y. 1939), the facts were similar to those in the *Fishman* case. The plan, however, expressly provided for the payment of the expenses of the creditors' committee incurred prior to the first meeting of creditors. This was held to be a firm engagement by the debtor which could be recognized in the plan. Cf. § 242; see Montgomery, *supra* note 53, at 844-845.

⁸⁷ 308 U. S. 106 (1939). This opinion has been widely commented on. See GLENN, FRAUDULENT CONVEYANCES AND PREFERENCES (1940) § 610; Dodd, *The Los Angeles Lumber Products Company Case and Its Implications* (1940) 53 HARV. L. REV. 713; Swanstrom, *Stockholders Participation in Reorganization* (1939) 28 GEO. L. J. 336; Notes (1940) 38 MICH. L. REV. 695, 53 HARV. L. REV. 485, 17 N. Y. U. L. Q. REV. 287; Address by Frank, *supra* note 45.

under Section 77B of the Bankruptcy Act. The directors elected to utilize the Bankruptcy Act, and caused a petition to be filed by the debtor under Section 77B.

The plan proposed in the proceedings under Section 77B provided that the debtor's assets of \$830,000 be capitalized at that figure by the issuance of 641,375 shares of \$1.00 par value preferred stock, to be allotted to the old bondholders, and 188,625 shares of \$1.00 par value common stock, to be allotted to the old stockholders. The net result would have been the allotment of shares having a value of \$641,375 to the old bondholders (giving them approximately 17% of the amount of their claims) and the allotment to the old stockholders of shares having a value of \$188,625.

The plan was accepted by 92.81% of the bondholders, 99.75% of the Class A shareholders, and 90% of the Class B shareholders, and was approved by the District Court for the Southern District of California⁸⁸ and the Circuit Court of Appeals for the Ninth Circuit.⁸⁹ On appeal by a dissenting bondholder to the United States Supreme Court the decisions of the courts below were reversed on the ground that the plan violated the doctrine of the *Boyd*⁹⁰ case, and was not fair and equitable within the meaning of the statute.⁹¹

The opinion of the Supreme Court delivered by Mr. Justice Douglas is undoubtedly the most important opinion in the field of corporate reorganizations since the *Boyd* case. It will probably supplant that opinion as the primary source of authority on the question of fairness of plans of reorganization.⁹²

Although not necessary for the decision of the court, the opinion expressly disapproved the so-called relative priority theory and announced adherence to the absolute priority theory.⁹³ Under the theory of "absolute priority" the legal priority status of the respective classes of claims is established and payment of the value of the claim or interest of any prior class, in cash or securities, is required before any interest may be allotted to a junior class; no interest in the reorganization debtor may be given to the holder of a junior interest unless the net value of the assets of the debtor is greater than the total amount of the senior interests, or unless new consideration is paid for the participation given to the junior interest.⁹⁴ Under the "relative priority" theory, the exact allotment to be made to senior classes is not entirely clear. Apparently it is sufficient to give the old senior classes new securities of a face amount equal to their old claims or interests and with a prior legal position over new securities issued to old junior interest.⁹⁵ Under this theory, a junior interest could be given a contingent interest even when the net assets of the debtor are insufficient to cover the senior claims and interests and even though no new consideration is paid by the junior interest for its participation.⁹⁶

The plan proposed in the *Los Angeles Lumber Co.* case did not afford adequate recognition to the senior claimants under either the absolute priority theory or the relative priority theory. Neither theory would justify the recognition of a junior interest if a senior interest is reduced to 17% of its former amount.

In so far as the court passed upon the main question presented, it did not deviate from or elaborate upon the principle of the *Boyd* case. However, the decision is significant because it disposes of a number of arguments which are made from time to time to justify the partici-

pation of junior interests under a plan of reorganization when the assets are not sufficient to fully cover the senior interests.

It was argued that since the plan had received the assent of 92.81% of the bondholders, 99.75% of the Class A stockholders, and 90% of the Class B stockholders, it should not be disturbed by the court. The answer, of course, is that the Bankruptcy Act requires two things: the necessary proportion of assents from the parties in interest, and a finding by the court that the plan is fair and equitable.⁹⁷ "The former is not a substitute for the latter * * *. The contrary conclusion in such cases would make the judicial determination on the issue of fairness a mere formality and would effectively destroy the function and the duty imposed by the Congress on the district courts."⁹⁸

Another justification offered for affording an interest to the old stockholders was that they constituted the management, and that the business would suffer if the old management were not continued—that the retention of the management would be of great benefit to the bondholders and therefore justified a recognition of the interests of the old stockholders.

The court conceded that it might be equitable under certain circumstances to give an interest under the plan to the old management if it obligated itself to continue such management, but it called attention to the facts

⁸⁸ *In re Los Angeles Lumber Products Co.*, 24 F. Supp. 501 (S. D. Cal. 1938).

⁸⁹ *In re Los Angeles Lumber Products Co.*, 100 F. (2d) 963 (C. C. A. 9th, 1939).

⁹⁰ *Northern Pacific Ry. v. Boyd*, 228 U. S. 482 (1913). The doctrine of the *Boyd* case is that any plan of reorganization which provides for the participation of stockholders without making adequate provision for all classes of creditors is an unfair plan. For a discussion of the *Boyd* case, see 2 GERDES, *CORPORATE REORGANIZATION* (1936) §§ 1083-1085; GLENN, *op. cit. supra* note 87, at §§ 224, 225; Douglas and Frank, *Landlord Claims in Reorganizations* (1933) 42 YALE L. J. 1003; Foster, *Conflicting Ideals for Reorganization* (1935) 44 YALE L. J. 923; Frank, *Some Realistic Reflections on Some Aspects of Corporate Reorganization* (1933) 19 VA. L. REV. 541, 698; Friendly, *The Corporate Reorganization Act* (1934) 48 HARV. L. REV. 39, 74-81; Graham, *Fair Reorganization Plans under Chapter X of the Chandler Act* (1938) 8 BROOKLYN L. REV. 137; Gerdes, *A Fair and Equitable Plan of Corporate Reorganization under Section 77B of the Bankruptcy Act* (1934) 12 N. Y. U. L. Q. REV. 1; Payne, *Fair and Equitable Plans of Corporate Reorganization* (1934) 20 VA. L. REV. 37; Rosenberg, *Reorganization—Yesterday, Today, Tomorrow* (1938) 25 VA. L. REV. 129, 136; Spaeth and Winks, *The Boyd Case and Section 77B* (1938) 32 ILL. L. REV. 769.

⁹¹ The words "fair and equitable" were stated to be words of art, the meaning of which embodied the rules of law enunciated in the familiar cases of *Kansas City Terminal Ry. v. Central Union Trust Co.*, 271 U. S. 445 (1926); *Northern Pacific Ry. v. Boyd*, 228 U. S. 482 (1913); *Louisville Trust Co. v. Louisville, N. A. & C. Ry.*, 174 U. S. 674 (1899); *Railroad Co. v. Howard*, 7 Wall. 392 (U. S. 1869). These cases were interpreted by the court as applying the rule of full or absolute priority. The words "fair and equitable" therefore embody the rule of full or absolute priority.

⁹² The *Boyd* case involved an equity receivership. There have been intimations that the principle of the *Boyd* case did not apply to § 77B proceedings. See *In re A. C. Hotel Co.*, 93 F. (2d) 841 (C. C. A. 7th, 1937); *Downtown Investment Ass'n v. Boston Metropolitan Buildings*, 81 F. (2d) 314, 323-324 (C. C. A. 1st, 1936); *In re Peyton Realty Co.*, 18 F. Supp. 822, 823-824 (E. D. Pa. 1936); *In re Burns Bros.*, 14 F. Supp. 910 (S. D. N. Y. 1936). These intimations, it was stated in the *Los Angeles Lumber Product Co.* case, are untenable. Footnote 14, 308 U. S. 106, 119 (1939).

⁹³ For a discussion of these theories, see FINLETTER, *op. cit. supra* note 39, at 426 *et seq.*; Bonbright and Bergerman, *Two Rival Theories of Priority Rights* (1928) 28 COL. L. REV. 127.

⁹⁴ See Bonbright and Bergerman, *supra* note 93, at 131.

⁹⁵ *Id.*

⁹⁶ Such a plan, however, might subject security holders to liability under state laws regulating the issuance of stock for a consideration less than its stated value. See *Brockett v. Winkle Terra Cotto Co.*, 81 F. (2d) 949, 954-959 (C. C. A. 8th, 1936).

⁹⁷ 308 U. S. 106, 114 (1939). See also *Taylor v. Standard Gas & Electric Co.*, 306 U. S. 307 (1939); *Tellier v. Franks Laundry Co.*, 101 F. (2d) 561 (C. C. A. 8th, 1939); *In re Barclay Park Corp.*, 90 F. (2d) 595 (C. C. A. 2nd, 1937); *In re Day & Meyer, Murray & Young*, 93 F. (2d) 657 (C. C. A. 2nd, 1938); *Price v. Spokane Silver and Lead Co.*, 97 F. (2d) 237 (C. C. A. 8th, 1938). *Contra*: *Downtown Investment Ass'n v. Boston Metropolitan Buildings*, 81 F. (2d) 314 (C. C. A. 1st, 1936). The latter case was one of the leading cases for the proposition that Section 77B embodied principles of composition. In the *Los Angeles Lumber Products Co.* case the distinction between principles of reorganization and composition were pointed out by court. Footnote 14, 308 U. S. 106, 119-120 (1939).

⁹⁸ 308 U. S. 106, 114-115 (1939).

that the benefits expected from the old management were founded in the immediate case on a mere hope of advantage without definite basis in fact,⁹⁹ that no promise was made by the old management to continue in office for any definite period of time, and that all stockholders were given recognition although many of them were not a part of the management. The court held that the mere hope that the old management would continue did not constitute new consideration for the interest given to the old stockholders.¹⁰⁰

The claim was made that under the plan the bondholders were actually receiving more than they would upon a forced sale of the assets in liquidation. It is clear, however, that if creditors can recover more through reorganization than through liquidation, they are entitled to the additional benefits obtainable upon reorganization. There is no reason for compelling them to take the lesser value which they would receive upon liquidation. The benefits of reorganization are not intended solely for stockholders.¹⁰¹

It was argued that, under the peculiar circumstances of the case, the stockholders were entitled to compensation for their surrender of control. The trust indenture securing the bond issue provided that interest on the bonds was payable only out of earnings. There was no provision permitting the bondholders to assert any right until 1944 in the event of failure to pay interest on the bonds. There was no obligation to pay principal until 1944. If the old stockholders, acting through the board of directors, had not initiated the reorganization proceedings, the bondholders would have been compelled to wait until 1944 before they could assert any legal right to control of the assets. They could not initiate reorganization proceedings under the Bankruptcy Act because there had been no act of bankruptcy.¹⁰² The voluntary surrender of control by the stockholders when they initiated the reorganization proceeding, it was said, therefore, constituted something of value for which compensation might properly be granted under the plan of reorganization.¹⁰³

The court disposed of this contention by pointing out that when the jurisdiction of the court is invoked for the purpose of reorganization the parties who initiate the proceeding, as well as all other interested parties, must assume the disadvantages as well as the benefits of the procedure. One of the disadvantages is the possibility that the court may completely eliminate the interests of the old stockholders,¹⁰⁴ or, in some cases, the interests of the petitioning creditors,¹⁰⁵ if that is found to be fair and equitable. When the court acquires jurisdiction the stockholders are automatically deprived of control, and the jurisdiction and control of the court cannot be affected by any prior agreement of the parties.¹⁰⁶

Finally, it was urged that unless the stockholders were appeased in some fashion they might engage in obstructive tactics, as a result of which the reorganization would be delayed. The peculiar circumstances of the case made it highly desirable to consummate the plan as speedily as possible. Speed of reorganization was worth more to the bondholders than the cost of giving the stockholders an interest under the plan. The court pointed out, however, that there was no dispute about the value of the assets. The amount of the liabilities was conceded. Under the circumstances the need for the compromise of a *bona fide* dispute was not presented. Nuisance value alone does not

justify recognition of an interest.¹⁰⁷ The court expressly stated that it did not mean to indicate that a *bona fide* compromise of claims was prohibited in reorganization proceedings under the Bankruptcy Act.¹⁰⁸

In his opinion, Mr. Justice Douglas recognizes the right to grant an interest to stockholders in a plan of reorganization even though the company be insolvent, but such an interest must be based upon a new consideration, as the court expresses it, "in money or in money's worth", and there must be a reasonable relation between the value of the interest given to the stockholders and the value of the new consideration which they give.¹⁰⁹

(Continued on page 44)

⁹⁹ The Court said:

"Such items are illustrative of a host of intangibles which, if recognized as adequate consideration for issuance of stock to valueless junior interests, would serve as easy evasions of the principle of full or absolute priority of Northern Pacific Ry. Co. v. Boyd, *supra*, and related cases. Such items, on facts present here, are not adequate consideration for issuance of the stock in question. On the facts of this case they cannot possibly be translated into money's worth reasonably equivalent to the participation accorded the old stockholders. They have no place in the asset column of the balance sheet of the new company. They reflect merely vague hopes or possibilities. As such, they cannot be the basis for issuance of stock to otherwise valueless interests. The rigorous standards of the absolute or full priority doctrine of the *Boyd* case will not permit valueless junior interests to perpetuate their position in an enterprise on such ephemeral grounds." 308 U. S. 106, 122-123 (1939).

¹⁰⁰ A like conclusion was reached in *In re Barclay Park Corp.*, 90 F. (2d) 595, 598 (C. C. A. 2d, 1937). This opinion is quoted by the court in footnote 16, 308 U. S. 106, 123 (1939).

¹⁰¹ 308 U. S. 106, 123-124 (1939).

¹⁰² § 77B (a) (i); cf. Chapter X, § 131.

¹⁰³ The Court agreed that the right of the stockholders to keep possession until 1944 was a thing of value. It pointed out, however, that this right was waived by the commencement of the proceedings under § 77B. The Court said:

"Certainly the surrender of a right thus waived is not adequate consideration for the dilution of the bondholders' priorities which this plan would effect." 308 U. S. 106, 127 (1939).

¹⁰⁴ *In re Reading Hotel Corp.*, 15 F. Supp. 527 (E. D. Pa. 1936), *aff'd per curiam sub nom. Reading Hotel Corp. v. Protective Committee*, 89 F. (2d) 53 (C. C. A. 3rd, 1937); *In re Utilities Power & Lights Corp.*, 29 F. Supp. 763 (N. D. Ill. 1939).

¹⁰⁵ The strict application of the doctrine of full or absolute priority would preclude creditors from participating in a plan of reorganization if the debtor's assets were insufficient to cover prior claims. See *Re 620 Church Street Bldg. Corp.*, 299 U. S. 24 (1936); *In re Central Funding Corp.*, 75 F. (2d) 256, 259 (C. C. A. 2nd, 1935).

¹⁰⁶ The Court said:

"Once the property is in the hands of the court private rights as respect that *res* are subject to the superior dominion of the court and are to be adjudicated pursuant to the standards prescribed by the Congress. . . . If the reorganization court were bound by such conventions of the parties, it would be effectively ousted of important duties which the Act places on it. . . . No conditions precedent to enjoyment of the benefits of § 77B can be provided except by the Congress. To hold otherwise would be to allow reorganizers to rewrite it so as to best serve their own ends." 308 U. S. 106, 125-129 (1939). See *GERDES, op. cit. supra* note 17, at c. 9; footnote 22, 308 U. S. 106, 126 (1939); cf. §§ 111-116.

¹⁰⁷ The Court said:

"Threats by stockholders of the kind here in question are merely threats to the jurisdiction of the court, which jurisdiction these selfsame stockholders invoked for their benefit when they caused the debtor's petition to be filed. Consequently, these claims of the stockholders are, as we have said, entitled to no more dignity than any claim based upon sheer nuisance value." 308 U. S. 106, 130-131 (1939).

¹⁰⁸ The Court said:

"Close questions of interpretations of after-acquired property clauses in mortgages, preferences in stock certificates, divisional mortgages and the like will give rise to honest doubts as to which security holders have first claim to certain assets. Settlement of such conflicting claims to the *res* in the possession of the court is a normal part of the process of reorganization. In sanctioning such settlements the court is not bowing to nuisance claims; it is administering the proceedings in an economical and practical manner." 308 U. S. 106, 130 (1939).

¹⁰⁹ The Court said:

"It is, of course, clear that there are circumstances under which stockholders may participate in a plan of reorganization of an insolvent debtor. This Court, as we have seen, indicated as much in *Northern Pacific Ry. Co. v. Boyd, supra*, and *Kansas City Terminal Ry. Co. v. Central Union Trust Co., supra*. Especially in the latter case did this Court stress the necessity at times, of seeking new money, 'essential to the success of the undertaking' from the old stockholders. Where that necessity exists and the old stockholders make a fresh contribution and receive in return a participation reasonably equivalent to their contribution, no objection can be made. . . . To accord 'the creditor his full right of priority against the corporate assets' where the debtor is insolvent, the stockholder's participation must be based on a contribution in money or in money's worth, reasonably equivalent in view of all the circumstances to the participation of the stockholder." 308 U. S. 106, 121-122 (1939).

The World Cotton Situation

How Will the New Set-up Affect Our Trade?

By W. L. Clayton, Anderson, Clayton Co., Houston, Texas

Cotton, as the fibre from which about three-fourths of the world's clothing is made, is peculiarly an article of international trade.

In consequence, the cotton producer and every part of the great raw cotton industry, wherever located, faces a dark and uncertain future.

The situation must, nevertheless, be studied in terms of today and tomorrow.

Yesterday's experience, with its successes, its failures and its mistakes, almost certainly holds no lamp for tomorrow's guidance.

The present situation, briefly, is this:

For the past five years the international trade in raw cotton of all growths has averaged about 12½ million bales annually. Of this volume, the United States has furnished a little over 5 million bales.

Today, the war has effectively eliminated as importers of cotton practically the entire Continent of Europe, consuming about 5 millions of bales annually of all growths of cotton.

Those countries to which exports are still possible, such as Great Britain, Japan, China, etc., have in recent years taken an average of 7½ millions of bales of all kinds of cotton, of which the United States has furnished 3 million bales. It is extremely doubtful if, with a continuation of the war, these countries will buy more than 2 to 2½ million bales of our cotton. As you know, the exports of United States cotton normally averaged nearly 8 million bales, and for the past five years the average has been something over 5 million bales.

What of Tomorrow's Market?

Thus, for cotton as well as for other agricultural commodities, we are rapidly approaching a realization of that catch slogan of the isolationists—"The American market for the American farmer." What the isolationists have not understood or at any rate have not made clear is that this really means—"Only the American market for the American farmer."

On that basis, of course, we have in the United States a surplus of at least 2 million farm families and 75 to 100 million acres of farm land.

So much for today!—Now, who knows what kind of world we shall face tomorrow?

This much seems certain: If the dictators win this war, the United States must embark on a preparedness program of colossal proportions.

That means, among other things, an economic, and

to some extent, a political revolution in the United States.

The awful shriek of the dive bomber, and the relentless march of the armored tank across Flanders and France brought to an end in the United States the so-called good old days when we became great and rich and complacent and a little soft.

The dictators built thousands of these instruments of destruction. We shall probably build them by the tens of thousands, bigger and still more destructive. And a two-ocean navy.

A new order which we hate, but a new order just the same. How many of us now realize what this means to our way of life? We hear much about the fifth column and the Trojan horse. These are not first problems. We shall know how to deal with these things.

Our first problem is to decide what our international policy is to be.

As to the Western Hemisphere, the decision is apparently already made that the Monroe Doctrine is to be literally and rigorously enforced.

Anything less than that would probably mean that before many years we would meet the same fate which has recently befallen half a dozen other democracies.

But to a layman the enforcement of the Monroe Doctrine throughout the Western Hemisphere, with Europe in the hands of the dictators, looks like much the biggest order we have ever undertaken.

It probably means military preparation sufficient to meet and overcome the combined offensive military resources of any three dictators in the world.

Our second problem is to obtain from competent authorities blueprints and specifications of an integrated defense program.

Our third problem is to organize the job itself, and, what is of enormous importance, to study and plan the necessary re-adjustments in our domestic economy, and, to some extent, of our political philosophy. Without such re-adjustment it will be impossible to carry out this gigantic enterprise.

It would be fatal for the American people to underestimate the sacrifices involved.

It has been said that Germany's preparation for war cost forty billion dollars.

If that is correct, the cost to us will be much more.—Call it sixty billions of dollars, to be spent at the rate of 15 billions of dollars annually for four years.

This is a lot of money, but we have become used to billions in spending Government money.

The man in the street probably will say, "Well, it's a big price to pay, but I guess it's worth it, so let's get on with the job."

But does he realize that it is impossible to put any such sum of money into the building of such a colossal military machine without automatically and drastically lowering the standard of living for every one now enjoying a standard above the very minimum?

Change in Mode of Life

The labor, the materials, the shop room, the capital required in this huge undertaking cannot also be used to supply us with the luxuries to which we have become accustomed in recent years.

Fifteen billions of dollars exceeds all the wages and all the salaries paid out by all the manufacturing plants in the whole United States in any year of our history. It is twice the value of our entire agricultural production, employing about one-third of our population.

Taxes must be drastically increased not only for raising the money to pay the bill, but to forcibly take buying power away from the middle and upper income groups, so that they will be compelled to substantially lessen their demands on productive capacity, freeing it for use in the vital preparedness program.

We cannot pass on much of the cost of this program to our children and grand-children because we have already asked them to assume twenty-five billion dollars of new debt contracted during the past eight years. Modern children have a way of becoming disobedient when pressed too hard.

Public control needs to be exercised over new construction of all kinds so that no unessential demands will be made on the economy which may slow down or impede the preparedness program.

Labor must make its contribution in longer hours; the job cannot be done on a forty hour week. Strikes, either of capital or labor, cannot be tolerated.

Drastic economies must be effected in the administration of all non-military departments of the Government. Relief appropriations must be scaled down and finally discontinued; political distribution of P. W. A. and W. P. A. projects must cease, in fact these agencies must disappear entirely when the preparedness program gets under way.

There will be work for every one who can work, and local communities must take care of those who cannot.

In short, under the new order, legislation for and by minority pressure groups, thinking only of their own selfish interests, must cease if we do not want to go the way of the other democracies.

The emphasis for National endeavor must be taken off of reform and placed on production.

Leon Blum concentrated on reform and social progress in France to the point where he almost caused the ruin

of his country long before the German army set foot on French soil; meantime, in Germany they were tightening their belts, working sixty hours a week and building the most colossal fighting machine the world has ever known. Hitler's victories were won in preparation for the battle, long before a gun was fired.

Do I hear someone say that's all very well, but this is the United States and we are not going to turn the clock back in this country in any such way as that? All right, but if the people of this country fail to realize, and quickly, that the old order has perished; that playtime is over; that we must work and economize as our forefathers did, then they are not worthy of the pioneers who subdued the savages, cleared the wilderness, and laid the foundations of our glorious country.

I do not mean to speak disparagingly of any group of men. Some of the finest patriots in this country are in Washington working fifteen to eighteen hours a day, but isn't it clear that the necessary decisions in this crisis cannot be made in time by a body of men, many of whom have their eyes and ears glued to the next election?

We Must Face Future

If we go on as we are now going, won't we repeat the tragic experience of France, and England, finding ourselves pitifully unprepared and at a time when it is too late?

The only safe course is to recognize that although we are still at peace, the future is so menacing that we must act as if we were already at war.

Our slow-acting Democratic system of checks and balances is the best in the world for conditions of peace, but it cannot cope with the problems of modern warfare.

We would be much wiser to recognize now, rather than later, that we must make a temporary surrender of some of our cherished institutions if we wish to preserve any of them for future generations.

Now, turning from war to peace, such as it will be, let me give you a picture, as I see it, of the world trade situation if the dictators win this war, or even if it ends in a kind of stalemate.

Here it is:

A bankrupt totalitarian Europe, returning to peacetime industrial production at starvation wages and long hours, requiring vast quantities of foodstuffs, fibres, and other raw materials.

Latin America, Africa, and Asia, warehouses bulging with raw materials, the sale of which was interrupted by war, requiring manufactured goods of all kinds.

The United States, with practically all the gold in the world, a huge industrial plant, working at high wages and short hours, large stocks of cotton, wheat, and corn, and other raw materials, and a high protective tariff.

This picture may be over-simplified but it certainly suggests that South America, Africa, and Asia will swap their raw materials to Europe for cheap manufactured goods, and that the United States will be left holding



its surpluses both of agricultural and industrial products. This has for us both economic and political implications.

Not only are there strong ties of race, culture and language between South America and the old world, but the economy of the two areas is much more complementary than that of the United States and South America.

Europe needs all South American products; we need only a few.

Indeed, South America and the United States are competitors in the production for export of numerous commodities, principally cotton and grain.

Closer economic relations between Europe and South America will almost certainly be accompanied by closer political contact which will render more difficult our enforcement of the Monroe Doctrine.

On the other hand if South America, Africa and Asia preempt the European cotton market, for example, what are we going to do with our cotton surpluses?

These momentous questions are a ringing challenge to our realism, our vision and our ingenuity.

Nobody knows the answers, but the direction in which we should seek a solution of these problems may be suggested.

First, as to Latin America:

We Must Look to South

It is vital to the successful enforcement of the Monroe Doctrine that everything possible be done to draw closer the ties of trade and amity which already exist between Latin America and the United States.

There must be no waving of the big stick. We must play the commercial game fairly. We must stop subsidizing our trade where it comes into competition with theirs.

We should study the development of resources and commercial possibilities in Latin America with the views of bringing their economy into a more complementary relationship to ours, and we must be prepared to invest large sums of capital there to that end.

We must find ways and means of buying more Latin American goods, or risk redoubled totalitarian penetration there of an extremely dangerous character.

Now, as to our trade with Europe.

For years we have sold much more to Europe than we have bought from her.

When the war ends this trade unbalance will certainly be corrected. If this correction is accomplished by the simple process of shifting European purchases of raw materials from the United States to those countries willing to accept payment in goods, it will be a heavy blow to our entire domestic economy.

American cotton would naturally be the chief sufferer.

We cannot afford to surrender our European markets for cotton and other raw materials without exerting the utmost endeavors to hold them.

The only apparent way to hold these markets is to be realistic about the matter and be prepared to trade our goods for theirs, scrapping the tariff in the process. With so much of our industrial plant and labor diverted to military production, this suggestion may not be so difficult or radical as it may at first appear.

Bi-lateral, or barter, systems of international trade are cumbersome and destructive of trade itself. If any sub-

stantial part of world trade has to be done on that system, it will result in a serious contraction of world trade and a regrettable lowering in the standard of living. A lowering in the world standard of living is inevitable in any case, but it could be relatively short-lived with international trade conducted on a multi-lateral or free exchange—gold settlement basis.

With an Allied victory, international trade could be re-established at the end of the war, on a free exchange—gold settlement basis, using a portion of the huge gold holdings of the United States to get the system working.

A victory by the dictators appears definitely to bar any such solution, nevertheless it should not be excluded as one of the possibilities.

The United States has consistently stood for the principle of multi-lateral trade as opposed to the so-called barter system, but if the rest of the world adopts totalitarian methods of trade, we will be compelled to conform if we wish to sell our surpluses. Barter means the swapping of goods for goods. Obviously, that can only be done in our case by setting aside the tariff in many particulars.

Must Be Self-Contained

The alternative to this course is to so re-adjust our economy as to become almost entirely self-contained. This would involve such far-reaching and radical changes, accompanied by so severe a reduction in our standard of living that it is very doubtful if democracy would survive the shock.—Just as one example, there would be the problem of the two million farm families in the United States whose production is normally required for export, not to mention the more direct and immediate effect on the South of the loss of our cotton exports.

Rather than undertake any such radical readjustment, would it not be much wiser to trade with the rest of the world in whatever way may be open to us, meanwhile working with every means in our power to restore international sanity as quickly as possible?

Fateful days lie ahead.

Days which will test our patriotism, our mettle, our ability to make sacrifices.

Everyone of us, each according to his circumstances, will now have to make a contribution to the preservation of our way of life.

History must not say of us, "Too bad, but they couldn't take it."!

When the situation becomes somewhat clearer, doubtless the President of the United States will tell us what we face and will give us a kind of blueprint of what we must do to stop this juggernaut of destruction before it reaches the western world.

The American people are entitled to the whole story, bad as it may be.—That they can chin whatever program has to be followed, when they understand it, let no man for one moment doubt.

"Fire Prevention Is Credit Protection" will be the theme of the October Issue

Manual of Industry Credit Group Operation

As Authenticated by National Committee on Credit Methods and Practices

IN In order to provide existing and prospective Industry Credit Groups with a comprehensive guide and assist in the formation and conduct of their group activities and to assure maximum possible benefit to participants, this manual has been written.

It is the product of extensive investigation among existing groups, deliberation of active group members and is authenticated by National Credit Methods and Practices Committee's approval as the regulatory body of rules for uniform guidance of groups affiliated with Central Interchange Bureau.

Purpose of Industry Credit Groups

- (a) To bring together, at regular periods, Credit Managers of business establishments selling like trade, for the consideration of the affairs of common debtors.
- (b) To promote a cooperative spirit among these Credit Managers that a free and enlightened exchange of credit information may ensue to the benefit of individual participants and commerce generally.
- (c) To induce frank discussion of experiences with slow pay and marginal accounts with a view to stabilizing the credit condition of such accounts that distribution channels may be kept open and on a safe basis.

Organization of Groups

In organizing an Industry Credit Group, several important factors should be observed that the effort prove successful.

(a) Credit Interchange Bureau Membership:

The focal point of interest in credit activity is the CUSTOMER, whether it be at the desk of the Credit Manager in his daily duties or at the Industry Credit Group meetings. The daily work of the Credit Manager should dovetail with the discussion at the Credit Group meeting. The Credit Interchange Bureau service has been found best suited to accomplish this result and foster continued interest of the member in the active use of the Credit Interchange Bureau reports and attendance at the periodical Credit Group meetings. Industry Credit Groups have been founded on other

WHY THIS MANUAL IS PRESENTED

A number of requests have been received by those interested in organizing an Industry Credit Group in their local Association as to just how such a group would operate. The National Credit Methods and Practice Committee, after several months of deliberation and investigation, has devised this general plan for Industry Credit Group operations, and it is presented in the magazine in order that every N.A.C.M. member may study this plan which is authenticated by our National Committee on Credit Methods and Practices.

than the basis of Credit Interchange operation. However it has been found that such groups generally operate with only partial information which has proved misleading.

The reason why Industry Credit Group operation should be predicated upon Credit Interchange reports is clearly shown by analysis of any retail, wholesale or manufacturing business. Such analysis will show that

the vast majority of businesses do not limit their purchases to one group of suppliers of a similar commodity. These businesses purchase their needed supplies, material and services from a varied classification of suppliers. Moreover in many instances a supplier of a principal commodity is also manufacturer and/or distributor of dissimilar commodities which are sold not only through their "regular line" of customers but also to customers in an entirely different and varied classification. These latter CUSTOMERS, in turn may have still another set of "major suppliers." As a matter of explanation a few examples are given below:

THE CUSTOMER (RETAILERS)

THE SUPPLIERS

Wholesale Drug Companies
Manufacturing Drug Companies
Wholesale and Mfg. Stationery
Fountain Pens, etc.
Fountain & Confectionary Suppliers
(Wholesale and Manufacturing)
Novelties, Hospital Supplies, etc.
Specialty Merchandise such as
Radio and Table Appliances
And many others

Drug Stores

THE SUPPLIERS

(In addition to the suppliers given above)
Wholesale and Manufacturing Men's & Women's Wear

General or Department Stores

THE SUPPLIERS (Cont'd)

Wholesale and Manufacturing
Furniture
Wholesale Hardware
Wholesale & Manufacturing Grocers
and Food Products
And many others

General or
Department Stores
(Cont'd)

THE SUPPLIERS

These two groups of customers, as a rule have the least number of suppliers of varied commodity, yet these also have a number of "Incidental" Suppliers.

Specialty Shops, and
Sub-Contractors

THE SUPPLIERS

Hardware Manufacturers
Plumbing Manufacturers
Iron & Steel Manufacturers
Paint Manufacturers
Sporting Goods Manufacturers
Houseware Manufacturers
Roofing and Building Material
Manufacturers
Appliance Manufacturers and
Many Others

Wholesalers
Hardware

THE SUPPLIERS

Specialty Food Products Manufacturer
Canneries
Specialty Dairy Products
Soap, Paper, Manufacturers
And many others
Liquor Distillers, Wineries

Wholesale
Grocers

THE SUPPLIERS

Steel and Metal Manufacturers and
Wholesalers
Machinery Manufacturers
Tool Manufacturers and Wholesalers
Foundries
And many others

Manufacturers
Metal Products

THE SUPPLIERS

Growers and Shippers (Food Stuff)
Can and Glass Container Manufacturer
Wooden and Paper Box Container Mfrs.
Lithographers
Wholesale and Manufacturing Sugar
Companies
And many others

Canneries

These examples are only a few to show the large variety of "principal" Suppliers to any given CUSTOMER. In addition to the above mentioned suppliers, there are many suppliers who deal with the general trade, for example Paper and Container, Utilities, Advertising, Newspaper, Petroleum, etc. Banks and Finance Companies also deal with the general trade.

Another point of importance—CUSTOMERS are an individual lot;—they do not necessarily follow the old line orthodox channels when buying their needs, nor do they necessarily confine their purchases to the suppliers in any one market.

Recognizing these complex factors, it is important for a successful Industry Credit Group to base discussion of customers' accounts on complete Credit Interchange Bureau reports, rather than on the information obtained only from those present at the meeting, or on "hit or miss" information given by memory.

Therefore any practical and efficient procedure for Industry Credit Group operation is based upon the Credit Interchange report requiring each group participant to be a member of the Credit Interchange Bureau.

(b) Mutuality of Interest in Industry Credit Groups: Members of the Industry Credit Group should be those suppliers who sell predominantly to the same sources, and not necessarily in the same line of business. Since the focal point of interest is the CUSTOMER, it is found preferable to organize the group on the basis of representation of varied commodities sold to the Customer, rather than a representation of a single commodity.

For example, an Industry Credit Group to be formed of suppliers selling to retail Hardware stores should include suppliers in the wholesale Hardware lines, Wholesale or Manufacturing Paint lines, Implement Suppliers, Housewares, Wholesale Sporting Goods and suppliers of the varied commodities who also predominantly sell to the retail Hardware store.

(c) Steps in Organization:

1. It is necessary to obtain the interest and cooperation of the suppliers who predominantly sell to the trade under consideration for the new Industry Credit Group. Obviously with the assistance of the large suppliers in the line, a proper nucleus is formed to sponsor the group and the task of interesting others in Interchange and Industry Credit Group participation is considerably lightened.
2. Having this sponsorship, the next step is to compile a list of suppliers (both member and non-member) who are deemed eligible for the new group. This list should be submitted to the sponsors of the group for possible addition of omitted suppliers that the sponsors may deem to be eligible, and make correction in the list to eliminate suppliers not deemed eligible.
3. A personal call by an Association representative should be made upon each prospective group member to explain the purpose of the proposed Industry Credit Group, to obtain his interest and cooperation, and his agreement to be present at the organization meeting. The call upon a non-member of the Association and Interchange Bureau may result in an immediate signing of membership agreement but not often, nor should the immediate signing be stressed at the first call. The important object of the call is to create sufficient interest to attend the organization meeting. The result of each call should be given to the sponsors so that they may lend their assistance where such is needed to have all eligible suppliers on the proposed list present.
4. The organization meeting date having been set and place decided upon (a luncheon meeting has been found preferable) a confirmation notice should be sent to each eligible participant in the new Industry Credit Group, which notice should briefly explain the purpose of the meeting; in addition to giving date, time and place of the meeting. A reservation

card returnable to the Secretary has been found advantageous so that follow-up of the ones who have not returned the card may be made prior to the meeting.

Group Meetings

1. Industry Credit Group Meetings. At the organization meeting of the Industry Credit Group it is well to have present the President of the Association. The Secretary should properly introduce each attending representative to all others present and encourage informal discussion of topics of general interest to make each participant feel entirely at ease. Following Luncheon or Dinner the designated spokesman (usually the President of the Association) should call the meeting to order and briefly explain the Association's activities and benefits and the reason for an Industry Credit Group.
2. The Secretary should then explain in detail the plan of Credit Group operation and coordination of the group operation with the Credit Interchange.
3. A copy of the Code of Ethics and the proposed Rules of Procedure for this group should be given each person present. The Secretary should read both that they are fully understood. Rules of procedure should be adopted at the first regular meeting.
4. A Chairman and Vice-Chairman for the group should be elected at the first meeting and the term of office determined, in no event for a longer period than one year. Semi-annual elections are preferable. The Association Secretary or Assistant Secretary should be the Secretary of the Group and attend every meeting.
5. In most cases the representatives attending the organization meeting are somewhat strangers to each other and experience has shown that the representatives attending are not prepared to disclose their accounts at the first meeting. It is of utmost importance to successful operation that a spirit of confidence be inculcated in the minds of each and the Secretary may overcome some of this reticence at the first meeting by having several of the sponsors of the group mention accounts with which they are having difficulty and frankly stating their position with such account. Each representative in turn should be called upon and asked if he has any names of customers he wishes to discuss. It is advisable to have one of the sponsors seated next to the Secretary who could open the discussion by mentioning several customers and his experience with each.
6. It is important that the Secretary caution the assembled group that all information given be treated as strictly confidential, for credit department use only and not to be disclosed to any other person.
7. Before adjournment a definite date of subsequent meetings should be decided upon. (In most cases the monthly meeting is sufficient except in such industries whose terms are weekly or 10 days. A semi-monthly meeting in such cases is advisable.)
8. Follow up should be made promptly after the organization meeting to secure a membership in Association and Interchange Bureau from any non-member participant.

Industry Group Operating Procedure

To coordinate the daily credit work of Credit Group

members with the periodic group discussion, the following procedure should be followed:

1. Each member of the Credit Group is required to participate in the Credit Interchange Bureau Service.
2. The Association shall designate an employee to keep an extra copy of all clearances made by the Credit Interchange Bureau each day. This employee shall analyze each report segregating the completed clearance in which a member, or members, of the Credit Group in the classification using this plan have reported their interest and information, from other clearances showing no members of the Industry Credit Group selling. If the Industry Credit Group does not desire a segregation of the amounts owing and past due to members of the group, but simply desires a total amount owing, and total amount past due on the clearance as shown owing all members, the employee handling this operation may simply place a check mark opposite the classification on a Rubber Stamp as per specimen. Some Industry Credit Groups may decide on the plan of segregating the amount owing and past due to the members of the Industry Credit Group, as well as the total amount shown owing and the total amount past due to all members reporting on the clearance. Should this be desired by the Industry Credit Group, the employee should make this segregation showing the figures on each report so that the work will not accumulate until the last minute. In the event a number of Credit Groups use this plan of operation a Rubber Stamp may be used for the purpose of segregation showing the various industry classifications of the several groups and the segregated figures explained in the above paragraph should be shown opposite each classification. The rubber stamp is placed on each clearance and the clearances should be kept alphabetically. Specimen of the rubber stamp used is given below:
 1. Furn.
 2. Hdwre.
 3. Plbg.
 4. D. Gds.
 5. Drugs
 6. I. & S.
 7. C. Sup.
 - Markets.....
3. Some Industry Credit Groups desire a copy of the summary or review list of Interchange clearances (completed during the period since the last meeting,) a day or two in advance of their meeting so that they may jot down their own figures and other pertinent information on past due accounts. Other groups whose members may be more familiar with their accounts, are furnished the summary or review list at the meeting. In either event the summary or review list should be completed in accordance with the desires of the members of the particular group, including in the summary list the completed clearances as nearly up to the date of the meeting as operation will permit.
4. The summary or review list is compiled alphabetically from the copies of the completed reports indicated above. The list may be either mimeographed or duplicated and sufficient copies made for each member of the group. In compiling the list for the particular Industry Credit Group only those clearances are shown in which a

member or members of the group are selling as indicated by the segregation of group amount as explained in Section 2, Paragraph 1, Section 2, Paragraph 2. In addition to (a) name and address, the compiled list should show (b) completion date of clearance and (c) segregated amount owing to members of the Industry Credit Group, (d) segregated overdue owing to members of the Industry Credit Group, (e) total amount owing to all members, (f) total past due with all members, (g) total number of members reporting on the completed clearance, (h) number of markets reporting. (In the event the segregated amount owing and past due to the members of the Industry Credit Group is not desired, omit (c) and (d).

5. A specimen copy of a compiled summary or review list is attached for (a) Group segregation of amount owing and past due; (b) Total amount owing and past due.

Group Meeting Procedure

1. The summary or review list is furnished to the members of the Group prior to the meeting or furnished at the meeting. Some groups believe it psychologically advantageous to furnish the summary or review list at the group meeting to encourage attendance; a non-attender not being furnished with a copy of the list. However, it has been found that it is advisable to furnish an absentee a copy of the list as he will order Credit Interchange Reports on accounts showing a combined past due condition with which he was not familiar at the time he gave his experience, and therefore, either intentionally or by oversight did not check for the detailed Interchange report.
2. At the meeting each member having a copy of the summary or review list, the Secretary calls off the names of past due accounts decided upon by the Industry Credit Group as follows:
 - (a) If the list is a lengthy one, in order to conserve time the group may decide upon an arbitrary amount of \$500.00 or \$300.00 or even \$100.00 past due.
 - (b) The group may decide that the Secretary call off all past due accounts.
 - (c) The group may decide upon only those accounts past due in their segregated lines.

In any event it should be understood that *any* account on the Review List may be brought up for discussion by any member, simply by requesting the Secretary to do so.

3. After the Secretary has called the name and address of the past due account the members selling the account each give their experience briefly as well as pertinent information of credit interest.

For example: If a member of the group has recently called upon the account in question, a summary of his findings is of importance to the other members selling the account; correspondence received from the account in question, giving information and circumstances effecting his business; items of public record; any program for payment of past due accounts arranged with the customer. The amount of indebtedness owing and the amount past due to the individual members of the group is important but the facts pertaining to the operation of the customers business are of credit group interest and very helpful toward proper credit cooper-

ation and assistance in keeping a customer in business.

4. Following the discussion of the accounts on the Summary List, the Secretary should call upon each member present for any "special" names he may have to bring up for discussion.
5. Time permitting, matters of general credit interest such as current sales and collection conditions as compared with previous month, legislative matters, unfair practices affecting the Industry, etc., may also be brought up for discussion before adjournment.

Summary

As will be noted in this Industry Credit Group procedure, the group operation is entirely predicated on the individual members making inquiries to the Credit Interchange Bureau as the need arises, first on new accounts and secondly on accounts of marginal nature and third, accounts that have become slow in the manner of payment, or for any other reason requiring an Interchange Report.

The individual Credit Manager naturally does not wait for a Credit Group meeting to make his decisions. However, at the Credit Group meetings, a review of the clearances initiated from any source, is had, which enables the suppliers selling predominantly to any industry organized in a Credit Group to periodically review, as a group, marginal accounts requiring group cooperation, hence promoting credit stabilization.

CODE OF ETHICS FOR INDUSTRY CREDIT GROUPS

Affiliated with (Name of Local Association)

OBJECTS:

1. To bring about improvement of credit conditions in the industry through a spirit of cooperation between members and through a closer contact and understanding with the trade.
2. To promote the closest harmony and understanding between the members of the group and bring about cordial cooperation along credit lines.
3. To promote accurate and prompt interchange of ledger experience information through the Credit Interchange Bureaus of the National Association of Credit Men.
4. To prevent the pyramiding of credits.
5. To eliminate credit abuses, such as:
 - (a) Taking of unearned discounts
 - (b) Unjustifiable return of merchandise
 - (c) Unjust claims for damaged goods, shortages, etc.
 - (d) Unjust cancellation of orders.
6. To obtain financial statements.
7. To bring about joint action in handling affairs of insolvent or embarrassed debtors.
8. To hold meetings at stated periods for the discussion of account peculiarities and matters pertaining to credits, finance, collections, adjustments and credit conditions generally.
9. To handle collectively, through the Credit Association agencies provided, any credit matter affecting the group, so long as it is ethical and pertains to credit in any of its many ramifications, provided such action does not contravene the law.

(Continued on page 34)

High Cost of Cash Discounts

(Cont'd from p. 17) who take the cash discounts are the people who pay their bills when due anyway. And the folks who don't pay right on time are not hurried at all by the lure of cash discounts because they haven't the money available. We aren't so short of cash that we've got to hire it at extortionate rates. We need the extra profit more than the larger working funds. At least, funds at any such cost.

Cash discounts are getting old fashioned. They're a hangover from other days. We modernize our businesses from head to foot, so why not also our terms?

We'd lose customers if we stopped their cash discounts? Not so many as it might seem. The trend away from cash discounts has been under way for a goodly number of years. Where they haven't been abolished, they've been halved or quartered. They're going out.

More About the Discount Evil

The Editor,
Credit & Financial Management,
1 Park Avenue,
New York, N. Y.

Dear Sir:

How far is the discount giving evil to be carried before something is done about it?

A salesman representing one of the largest and best known manufacturers had occasion to call at one of these "three-floors-up-and-save-50% establishments recently and he found a rush of trade with a number of clerks busy writing up orders for customers who were practically waiting in line for their turn.

One customer was ordering every item she needed for the equipment of a small hotel. Bedding, furniture, crockery, rugs, curtains, the whole equipment from cellar to attic—every item purchased from sample or catalog description.

Not a hundred dollars worth of stock was carried in the rather limited quarters with the attendant investment and other expense.

The order when taken is sent direct to some supply (Cont'd on page 33)



One More Rivet..

The last rivet is no less important than the rest in strengthening the framework of structural steel. Work does not cease when the structure seems "reasonably safe."

The final provision for protection against losses is as vital as the rest in making the credit structure secure. That provision is

American Credit Insurance

All the fact-finding facilities and mature judgment of modern Credit Executives are directed toward shipping to customers who are *reasonably safe*. But, when you drive that "last rivet"—when you insure your sales—you know the accounts are safe.

American Credit Insurance reimburses you on credit losses and keeps capital from stagnating in past-due accounts. Chandler Act reorganizations have the same status as insolvencies in these modern policies. Many forms of coverage—general and specific—are available. The premiums are surprisingly reasonable. Investigate.

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The Excess Profits Tax

NACM Committee on Taxation Presents Statement

By C. F. Baldwin, Washington Representative, N.A.C.M.

American business men have become somewhat accustomed to "streamlined" legislative action during recent years. For sheer speed, however, the manner in which the Joint Committee of the House and Senate handled the Subcommittee report on the excess profits tax legislation deserves some sort of prize. The background of this situation should be clearly understood.

For weeks, representatives of Congress and the Treasury Department have been discussing excess profits tax legislation. The original plan of the Treasury Department, according to reports, was to canvass the opinion of business men and others concerning an acceptable and equitable excess profits tax by means of a questionnaire. That became impossible when the President, in a message to Congress, urged quick action in the matter. From then until Friday, August 9, discussions of the question were held in executive session and the public was given no indication—except by rumor—of the nature of the tax which would be proposed.

Meanwhile, the situation became complicated and the desire of the Administration for speedy action was accentuated by the growing controversy between the government and companies considering defense contracts, over the question of amortizing capital expenditures necessitated by such contracts. Many companies were unwilling to sign contracts and commit themselves to such additional expenditures without definite assurance that the added costs could be written off in a reasonable period of time. The government—or certain governmental agencies and officials—were apparently unwilling to accede to the requests of business on the amortization question until Congress enacted an excess profits tax. This situation caused some delay

in negotiating important defense contracts and added the amortization question to the already complicated problem of the excess profits tax.

Friday morning, August 9, a report of a subcommittee of the House Ways and Means Committee, containing the outlines of the proposed excess profits tax and of special amortization legislation, was made public. The same day, *hearings on the report* were commenced before a joint committee of the House and Senate. The hearings were concluded on August 14th. Thus only five days were provided for public discussion of the matter.

It is the *customary* practice of Congress to hold *hearings on an actual bill*. Generally, hearings are held before committees of both the House and the Senate, after which the committees report favorably or adversely to their respective bodies. In this case the hearings were held on a report proposing legislation instead of on the bill itself. As the hearings were held before a joint committee, there will be no further hearings in the Senate.

Because of these circumstances it was impossible for the Committee on Taxation of the National Association of Credit Men to complete its study of the Subcommittee Report in time to testify in behalf of the Association during the brief hearings. The Committee wisely decided to submit its preliminary views on the matter in a statement to the Joint Committee instead of attempting to present testimony on legislation of such importance without adequate time to study the proposed legislation carefully. Accordingly, the following statement of the Committee has been presented to each of the 46 Senators and Representatives comprising the Joint Committee of Congress:

The Committee on Taxation of the

National Association of Credit Men, which comprises a membership of approximately 20,000 manufacturers, wholesalers, banks and insurance companies located throughout the country, desires to submit the following observations concerning the Report of the Subcommittee on Ways and Means on Proposed Excess-Profits Taxation and Special Amortization.

Because of the limited time available to study the report, the committee is forced to restrict its comments to certain suggestions which appear to be necessary to prevent the proposed tax from operating in a manner detrimental to sound credit conditions. The committee realizes that there may be other aspects of the tax which may adversely affect credit conditions. It intends, therefore, to observe carefully the actual operation of the tax in that regard and be prepared later to submit to the Congress further information derived from such observations.

The committee desires to make a general observation with regard to the need for the proposed legislation. The committee understands that the annual revenue which will be derived from the proposed excess-profits tax is likely to be much less than the estimated \$300,000,000 which is generally supposed to be the expected annual revenue. Much greater revenue could obviously be raised more easily through other means of taxation which would be less productive of the difficulties and inequities which will probably result from the proposed excess-profits tax. The revenue-producing aspect of the tax appears, therefore, to be relatively unimportant and the legislation must be regarded from the standpoint of its primary purpose—to recapture undue profits which companies may earn as a result of participation in the defense program.

The proposed legislation may accomplish that obviously desirable purpose to some extent but it may fairly be asked whether, in doing so, it will not operate to the detriment of many companies whose activities are not related in any way to the defense program. The committee believes that a more selective form of taxation so designed as to recapture excess profits realized by companies producing materials for the defense program, would more effectively attain the desirable objectives of the proposed legislation and would, at the same time, not cause difficulties and probable hardships for other companies.

The committee believes, after a review of conditions that existed under former excess-profits tax laws, that it is virtually impossible to have an equitable excess-profits tax, and feels that this form of tax legislation should not be enacted. The inherent complications and inelasticity of an excess-profits tax, and the high rates of such a tax, inevitably result in inequities and frequently cause serious injury to many types of business organizations.

The committee also desires to comment concerning the association of the proposed amortization legislation with the excess-profits tax proposal. It is generally understood that enactment of an excess-profits tax has been set as an essential prerequisite to the adoption of a policy concerning amortization of expenditures for defense purposes which will be acceptable to the government and to business. The committee believes that it would have been preferable to deal first with the question of amortization for the purpose of expediting the defense program and to proceed more deliberately with the important question of an excess-profits tax. That approach would have made possible a more deliberate study of the problems of taxing excess profits as equitably as possible and, we believe, would have been even more effective in protecting the public interest in connection with any special treatment which might be accorded to companies participating in the defense program, in connection with the question of amortization.

The committee does not oppose the alternative methods of arriving at the exemptions from the excess-profits tax which are proposed in the Subcommittee report but does suggest the consideration of some effective relief provision in the legislation which would

prevent the operation of the tax from working any unnecessary hardships against any company, large or small. It is specifically suggested that the law contain a provision that, in cases where because of present deficiencies in average earnings or invested capital, or because of other abnormal conditions affecting capital and income, a hardship is worked on the taxpayer as a result of the excess-profits tax, the income of such taxpayer should be subject to an excess-profits tax which bears the same ratio to its net income as the average tax of representative corporations engaged in a like or similar trade or business bears to their net income.

With the addition of this relief provision the law would contain three bases to be employed in arriving at the tax: (1) invested capital, (2) average earnings, and (3) the special relief provision.

The committee also desires to make the following specific recommendations:

Change the base period, to be used in determining average earnings, from the present proposal of the years 1936-1939 inclusive, to any three of those four years. The proposed three-year base period would tend to eliminate abnormalities which will exist if the average of the four years must be used.

Permit corporations to file consolidated returns. Unless the filing of consolidated returns is permitted, substantial inequities will result in the reflection of true income and true invested capital.

Eliminate stock dividends in the computation of equity invested capital. Stock dividends paid by a corporation do not add to or detract from the amount of money that the shareholders have invested in the business. The increase in the capital stock account is offset by a like decrease in the surplus account, resulting in no change in invested capital.

In connection with the determination of "borrowed invested capital," permit the taxpayer to use an average of the capital borrowed during the taxable year. This could be accomplished by totaling the amount of borrowed capital at the end of each month of the year and dividing the total by twelve. This is suggested because of the established practice of many firms of reducing their borrowed capital at the end of the calendar year. If the amount of borrowed capital should be computed as of that time, substantial in-

equity might result which would be eliminated by striking an average for the year.

Make the excess-profits tax applicable to 1941 instead of 1940. The amount of excess profits whose recapture is sought in the proposed legislation during the current year is likely to be small compared to the advantage of permitting corporations to adjust themselves to the new tax by extending its date of application to next year.

The committee desires to emphasize that, even with the changes suggested above, the proposed excess-profits tax is likely to produce many difficulties and hardships. It believes, however, that the proposed changes will reduce somewhat the complications which would otherwise be caused by the tax.

The committee clearly recognizes the necessity of preventing profiteering in connection with the operation of the government's defense program. It is forced to the conclusion, however, that the effect of the proposed tax in that direction may prove to be secondary to the unfortunate results which may follow the operation of the tax. Avoidance of those difficulties would necessitate a more deliberate approach to the problem of taxing excess profits.

The committee believes that it voices the sentiment of the entire membership of the National Association of Credit Men in recognizing that all elements of our country will have to make sacrifices to promote the success of our defense efforts. It recognizes that those sacrifices will have to be made by business as well as by individuals. It believes, however, that the necessity for these sacrifices should not obscure the danger of enacting legislation which will be needlessly detrimental to many companies without producing any corresponding benefits. Nothing could be more harmful to the country at the present time than any action on the part of the government which would disturb or impair sound credit conditions. Sound credit is essential to sound industrial and commercial activity and consequently essential to the ultimate success of the efforts which are being made to mobilize industry and business in the common cause of national defense.

Respectfully submitted by:

Committee on Taxation of
the National Association
of Credit Men.

More About Traffic Problems That May Affect Credit Work

By D. W. C. Becker, Director, Traffic Management Department,
La Salle Extension University, Chicago

IN The article in the July, 1940 issue of your magazine by Mr. Ernest Rusch on "Traffic Problems in Credit" is very interesting and informative. I feel that it will be helpful to both credit men and traffic men to read this article.

There is one impression I get from reading this article which I am sure Mr. Rusch did not wish to create, in connection with the discussion on page 12, of Section 16 3(B) of the Interstate Commerce Act. Preceding this discussion, Mr. Rusch gives the impression that he is talking about loss and damage claims. There is no statement made of the fact that Section 16 3(B) has no reference to loss and damage claims. This section of the Interstate Commerce Act refers to what traffic men know as the reparation or rate damage section in connection with

amounts paid by shippers or receivers based on rates which are subsequently determined to be excessive, and not merely over-charges which are based upon the application of the wrong rate.

The fact of the matter is that the Interstate Commerce Commission has no jurisdiction over loss and damage claims and this not only is the rule but it is the law as laid down by the courts. The Commission itself in an early decision found in volume 24 I. C. C. 645 said that it had no power to direct payments of loss or damage claims. In a long line of decisions by the courts these courts have held that the Commission's jurisdiction over claims for reparation does not extend to claims arising from loss, damage, or delay to shipments in transit, such claims being cognizable in the courts.

A rail carrier is liable for safe trans-

portation of goods as covered by Section 20, paragraph 11, of the Interstate Commerce Act. By Section 219 of the Motor Carrier Act, this same Section 20, paragraph 11, of the Interstate Commerce Act is made to apply with like force and effect to receipts and bills of lading of common carriers by motor vehicles.

It is true that there has been some question as to whether this section of the Motor Carrier Act does or does not include the provision of Section 20, paragraph 11, relating to loss and damage. On this point, however, O. L. Mohundro's Notes on the Motor Carrier Act, 1935 makes the following statement:

"An analysis of Section 20, paragraph 11, shows that its provisions with respect to receipts or bills of lading are so connected up with the subject of loss and damage as to indicate that a reasonable construction would include the application of the whole of the paragraph to carriers by motor vehicle."

It would therefore appear that the liability assumed by motor vehicles for safe transportation of goods is covered by Section 20, paragraph 11, of the Interstate Commerce Act which, as pointed out, is also the law applying to railroad transportation. Consequently a shipper of goods by motor carrier, in the event of loss and damage, should investigate the terms and conditions of the bill of lading under which it is transported with a view to determining whether such terms and conditions are in agreement with the law as stated in Section 20, paragraph 11.

It is true that the Motor Carrier Act contains no special provision for the payment of overcharges. This act, however, does require the motor carriers to collect the lawful tariff charges and it is within the scope of the Commission's authority to ascertain what is the lawful and applicable rate, 11 M. C. C. 365; 12 M. C. C. 741. In the event a motor carrier disregards a finding of the Interstate Commerce Commission as to the lawful and applicable rate, the claimant may appeal to a court to compel the carrier to observe the lawfully published tariff rate.

The subject of loss and damage is a most interesting one offering many opportunities for fine cooperation between the sales, credit and traffic departments. I extend my sincere compliments to Mr. Rusch for the constructive manner in which he has brought out the possibilities of such cooperation.

Service and Friendship Through the Years

FOR One Hundred and Four Years the Northern Assurance has served Fire Insurance Policyholders throughout the world. During that time there has existed a bond of service and friendship between the company, its representatives and policyholders that has made the Northern's successful growth possible.

Through years of financial depression, through wars—civil, national and world-wide—the Northern pursued a steady course.

It has come through all the conflagrations paying its policyholders promptly and equitably in the great fires of Chicago, Baltimore and the never-to-be-forgotten disaster in San Francisco. The total loss payments of the Northern Assurance in these alone were in the millions and included the largest single claim paid by any one company in the San Francisco disaster.

Since 1854 the Northern Assurance has paid in losses to policyholders in this country over \$90,000,000.00. Does not this record speak for itself? You are safe all-ways with a Northern Assurance Policy.

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More About the Discount Evil

(Cont'd from p. 29) house or manufacturer who shoulders all of the detail and financing of the sale. The point is that he fills the order and then frequently solicits the patronage of legitimate dealers in his wares, having connived in sidetracking blank dollars of sales away from them.

An advertisement is appearing in a well known magazine which reads, "save up to 50% on your sporting goods at Blanks." Blanks stock one box of each kind of golf balls, one set of golf clubs, etc., but they will sell any one who takes the trouble to call at the office where he has desk room and little else, a set of nationally known matched clubs at 25% to 30% off the list price. The trade discount on these sets is 40%.

There is only one way to stop such practices and the power rests with the manufacturers who wink at such transactions and the sooner they act the better for legitimate dealers and for the public as well.

In the sporting goods industry where this evil is most pronounced and growing in volume, the practice could be stopped at once by a small group of outstanding manufacturers acting in concert and saying "NO." Their product cannot be sold by the discount-desk-room agencies without the permission of these manufacturers and the second and third flight manufacturers cannot offer products which are of equal quality and merit nor which are so well known and so much in demand.

In these days of dog eat dog commercially the sporting goods industry is changing rapidly because of the evils of price cutting and cries aloud for the manufacturers to take constructive action to stop fighting each other for volume without profit and do business on a constructive business basis.

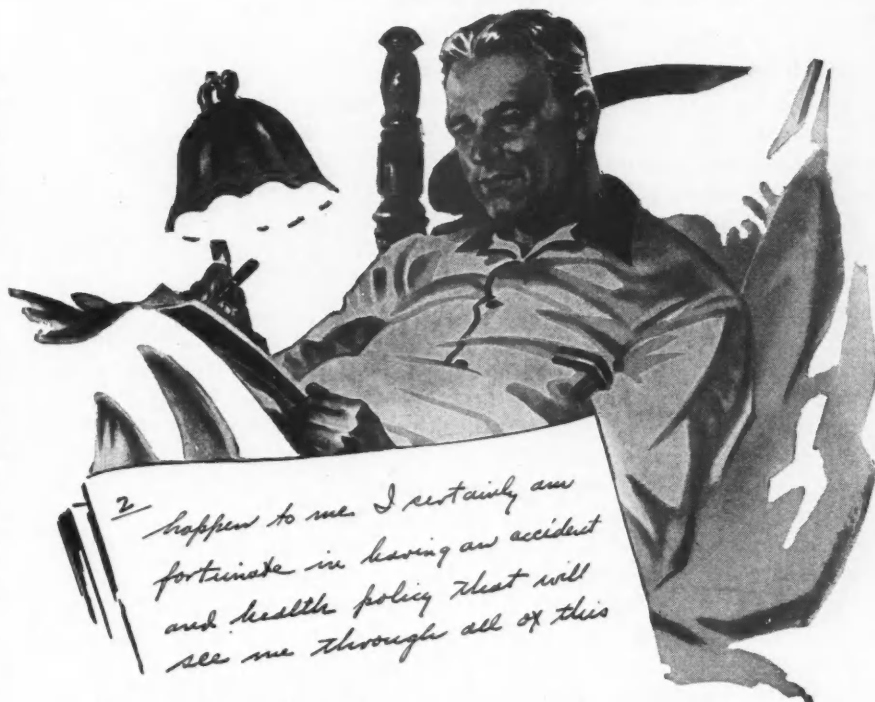
It is a fact that the manufacturers realize the serious condition which exists and are looking for a remedy. Who will be the St. George of the Sporting Goods industry and win loyalty for their product as well as honor for their name by doing something definite and constructive?

The solution rests on one word "No"—and mean it.

Yours very truly,

AT: BH

Alex Taylor.



But Only Because One Man Kept After You . . .

"I've always been healthy—never had an accident in my life," you said. But he came back at you—"What would your family do if you were laid up for a long time?" He convinced you in the end. Today you're recovering slowly—but you're still thanking him for his perseverance, and for the regular check which comes from the U. S. F. & G.

Your U. S. F. & G. Agent is one of 9,000 located throughout the country. He's in touch with countless business and personal insurance problems. It's his job to help you. Look him up in the phone book, and give him a call, today.

"Consult your Agent or Broker as you would your Doctor or Lawyer"

U.S.F.&G.

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with which is affiliated

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Manual of Credit Industry Group Operations

(Continued from page 28)

GENERAL RULES AND REGULATIONS

1. Election to membership shall be by the unanimous vote of existing group members only and shall be restricted to those holding membership in the Credit Interchange Bureau affiliated with Central Bureau.
2. The "Conditions and Regulations" a part of the Credit Interchange Bureau contract which reads as follows, shall apply with equal force and effect to group deliberations, operations and procedure.
 1. To be entitled to a Credit Interchange Bureau report, the subscriber requesting the report must have a past or present experience with the party upon whom report is requested, or a bona fide order from said party; and said ledger experience, or the amount of said first order, or both, must accompany the request for the report.
 2. All information furnished by the Bureau is for the exclusive use of the Credit Department of the subscribing firm; it shall be treated by the subscriber as strictly confidential, and shall not be imparted to any other person.
 3. The subscriber agrees to give a prompt, full and true statement of his business experience with all parties on whom information is requested by the Bureau, to substantiate if requested any information contributed by him, and to supply said information within twenty-four hours of the receipt of the request. Ledger accounts, notes, trade acceptances, and secured accounts shall be included when giving the total amount due.
 4. Under no circumstances shall the name of any subscriber who has contributed information, or the identity of the Bureau or member requesting a report, be divulged to anyone except by express permission.
 5. Should any subscribing member fail to make prompt, full and truthful report of the details of his account with any party on whom such information is requested by the Bureau on a blank furnished for that purpose, or should he wrongfully divulge information furnished by the Bureau, he may, at the discretion of the Board of Directors of the be denied the privilege of the Bureau, and his annual fee for service shall be the property of the Bureau free from any claim of the subscriber.
 6. Should any member have reason to believe a report to be erroneous, and shall file a complaint with the Manager of the Bureau in writing, stating his views as to the part or parts of the report he believes to be incorrect, the Manager of the Bureau shall present the complaint to the Board of Directors, and upon approval, he, said Manager, shall have the right to inspect the books of the subscriber furnishing the information regarding which complaint has been made.
 7. The accuracy of reports is not guaranteed by the Bureau. The information is gathered in good faith and sent to subscribers by the Bureau without liability for negligence in procuring, collecting, communicating, or failing to communicate the information so gathered.
 3. Information developed at Group meeting shall be treated as strictly confidential communications for the sole use and benefit of members' credit departments and shall

not be divulged or used for sales or sales promotion purposes.

4. Groups shall not be used as an "exchange" for detailed ledger information but rather as an adjunct or supplement to Credit Interchange reports for the purpose of developing account peculiarities, methods of operation, trends and opinions.

5. No rules or regulations shall be adopted by an Industry Credit Group which would conflict with these general rules and regulations or with the Constitution and By-Laws of the (Local Association affiliated with National Association).

DRY GOODS GROUP

OCTOBER 24, 1939.						
Name and Address	Clearance Date	Group		Tot. all Members		No. of Houses
		Owing	Past Due	Owing	Past Due	
Men's Store, Woodland, Calif.	10-12	4265	582	8212	1760	20
Groc., Dry Goods, Liq. & Fertilizer, Los Angeles, Calif.	10-6	3992	996	8153	2729	25
General Store, Lakeview, Oregon ...	10-9	6581	111	3303	1258	30
Variety Store, San Francisco, Calif...	10-17	177	...	854	322	8
Hardware Company, Bakersfield, Calif.	10-10	175	175	1695	385	7
Frock Shop, Fresno, Calif.	10-17	585	...	585	...	4
Furniture Company, Fresno, Calif. ...	10-16	426	...	2657	597	12
Department Store, Stockton, Calif. & Branch	10-11	10192	...	15373	...	20
Variety Store, Los Angeles, Calif. & Branch	10-17	1780	...	4266	18	10
Furniture Company, Eureka, Calif. & Branch	9-26	701	...	6708	2009	20
Variety Store, Ocean Beach, Calif. ...	10-7	9020	1500	18251	1500	8
Department Store, Los Angeles, Calif.	10-7	4972	2611	11243	6073	41
Dry Goods & Men's Furnishings, Shafter, Calif.	10-5	445	163	2178	474	13
Department Store, Willows, Calif...	10-11	1914	538	3044	855	15
Men's Store, San Jose, Calif.	10-17	1828	340	2689	348	13

HARDWARE GROUP

DECEMBER 21, 1939.					
Name and Address	Clearance Date	Total		No. of Houses	
		Owing	Past Due		
Concrete Company, Berkeley, Calif.	12-13	2431	1855	8	
Hardware Company, San Francisco, Calif.	12-12	2859	559	21	
Hardware Company, Merced, Calif.	11-27	2060	817	16	
Wholesale Dairy Products, Susanville, Calif.	12-11	4656	1341	11	
Machine Works, San Francisco, Calif.	12-8	680	380	6	
Lumber Company, Arnold, Calif...	12-5	4818	...	8	
Heating Company, Oakland, Calif.	12-6	3871	1245	7	
Hardware & Furniture Company, Colma, Calif.	11-21	1741	565	11	
Chemical & Disinfectant Company, San Francisco, Calif.	11-27	460	276	10	
Hardware & Steel Co., San Francisco, Calif.	11-7	6438	2071	20	
Dry Goods Co., Stockton, Calif. & Branch	11-20	24495	6490	17	
General Store, Monticello, Calif...	11-29	6619	2755	22	
Tractor Co., Hanford, Calif.	11-30	26675	...	12	
Hardware Company, Benicia, Calif.	12-8	1709	694	12	
Iron Works, San Francisco, Calif.	12-5	20204	9302	26	

19 Associations show gain

Chicago—The August 1st NACM membership report released by Sales and Promotion Director E. B. Moran, shows that during the month of July, 19 Associations reported a net gain, 20 Associations reported a net loss, nine Associations reported equal number in and out, and 133 new memberships were reported.

In the individual classifications the following cities were the leaders: Class A—New York, N. Y. (Eastern Div.); Class B—Cincinnati, O. (Central Div.); Class C—Oakland, Calif. (Western Div.); Class D—Sioux City, Iowa (Central Div.); Class E—Huntington, W. Va. (Eastern Div.).

14 women's groups offer scholarships

The drawing for the National Scholarship awarded to the Women's Groups offering local scholarships resulted in the Minneapolis group getting the scholarship this year. There are now 14 women's groups offering scholarships in local Chapters, St. Louis having joined in the program recently.

Pittsburgh:

The tenth anniversary of the Credit Women's Club will be celebrated with a dinner-dance at the University Club on Saturday evening, Sept. 14. Norma Wiberly, Roesing Mfg. Co., is in charge of arrangements.

For the ensuing year the following officers have been elected: *Pres.*, Gertrude Reynolds, S & R Grinding & Machine Co.; *Vice Pres.*, Alice Fisher, Westinghouse Electric & Mfg. Co.; *Treas.*, Marie Ober, May Lumber Co.; *Sec.*, Pearl Karwan, Credit Assn. of Western Penna.

The following committee chairmen have been chosen to serve with the newly elected officers: *Program*, Alice Fisher; *Bulletin & Publicity*, Emma B. Retzer, Arrow Press Corp.; *Finance*, Inez Hanks, Penn General Supply Co.; *Scholarship*, Mrs. Margaret Weitzel, B. K. Elliott Co.; *Entertainment*, Audrey LaGrange, Williams & Co., Inc.; *Membership*, Ann Blazer, Land O'Lakes Creameries Co.

New York:

The New York CWG will go into action officially in October under the leadership of *Chairman* Mrs. Pearl Rose Knoll, The Andrew Jergens Co.; *Vice Chairman*, Catherine Cohen, New York Girl Coat Co.; *Sec.*, Sophie Frances Haase, Thos. J. Lip-ton, Inc.; *Treas.*, Florence Britt, Minwax Co.

The Group, as has been its custom, was inactive during the summer, the last official act being the awarding of two Helen R. Pouch Scholarships in April. The winners who received a one year course in Credits and Collections at the National Institute of Credit, at the expense of the Group, are Virginia F. Hanna, The Intertype Corp., and Dorothy Gannett, American Cyanamid Co.



Tanner Saves 39.6% on Compensation Insurance Cost

In 1933, an Illinois firm of tanners was paying a 10.6% penalty on its compensation insurance—\$1.67 per \$100 of payroll although the manual rate was only \$1.51.

That was the year Lumbermens took over. Our safety engineers inspected the plant... eliminated hazards... planned and organized a safe practice campaign among the employees.

Over a six-year period, accidents were so greatly reduced that the firm earned a 29.1% experience credit and paid only 95 cents per \$100 although the manual rate was then \$1.34.

Savings in rate over the six years amounted to \$9,492. Dividends from Lumbermens were \$5,448. Total saving in the costs of compensation insurance for the six years—\$14,940, or 39.6%, not including time and production saved by

elimination of accidents.

If you want this kind of safety record for your plant, Lumbermens can help you get it. A strong company, with a record of healthy growth, sound underwriting, conservative management, and sound distribution of dividends, Lumbermens is today serving leading corporations throughout the country.

For complete details on the work of Lumbermens' Safety Engineers and the materials in Lumbermens' Safety Education Program for your employees, telephone our agent in your city. He will be glad to lend you his copy of *The Yardstick of Insurance Protection*—comprehensive information on all phases of insurance and on the work your casualty company should be doing to help you cut your insurance costs.

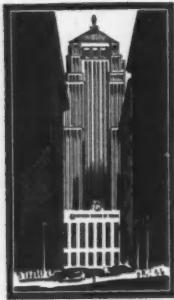
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Sound Property Insurance for Home and Industry with Service Extending from Coast to Coast.

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Association Activities

Manila:

J. F. Cotton was chosen President of the Manila ACM at the annual meeting of the newly-elected Board of Directors. Vice Pres. is R. P. Douglas and Eugene Davidson is Secretary-Treasurer. The Board of Directors for the current year are: F. C. Bailey, C. Bosshard, J. F. Cotton, E. Davidson, W. J. Diehl, R. P. Douglas, D. S. Fitzgerald, R. Manotok, R. L. Schroeder and A. C. Smith.

In his annual report, retiring President, W. J. Diehl, told of the progress achieved during the eighth year of the Association's existence, which now has 57 members.

Norfolk:

On the occasion of the 75th anniversary edition of one of the local newspapers, the Norfolk Tidewater ACM was given a special writeup which was prepared by Wm. G. Gornto, Assn. Treas.

The article pointed out that "the first organization of any kind in Virginia to adopt noon-day weekly luncheons was the Norfolk Tidewater Association of Credit Men, Inc., which was organized on Sept. 18, 1908, and affiliated with the National Association. Made up of wholesalers, manufacturers and bankers, it is one of 120 local associations in 45 states."

During its history, the local Association has taken an active part in civic affairs and in state and national legislative matters; it aided in securing passage of the bad check law many years ago; was one of the leaders in the organization of the local Chamber of Commerce, of the old Hampton Roads Port Commission which grew into the State Port Authority of Virginia, and of the State Commission on Conservation and Development. It played a prominent part in changing the old form of city government to the city manager form, and in other activities too numerous to mention.

Thirty-six members were present at the organization meeting in 1908, called by Henry G. Barbee, of Harris-Woodson-Barbee Co., Inc., and Claud L. Whichard, of Whichard Brothers Co., Inc. The meeting was held in the Board of Trade Bldg., with Capt. S. D. Buck, Sec. of the Baltimore ACM, as speaker.

Mr. Barbee was elected President, and served as such, or as Chairman of the Board, for more than 25 years, breaking the record of the National Association for continuous service. In 1912 he was elected to the National Board of Directors, and served for two years. Mr. Whichard, who also took an interest for years in work of the National Association, served for 10 years as Sec.-Treas. of the group here.

W. K. Neville succeeded Mr. Barbee as Pres., serving for two years, followed by W. R. Meech and P. L. Joyner, each of

whom served more than one term. Mr. Barbee was then elected Pres. again and served until 1935, when he was succeeded by O. O. Witherspoon, Robert S. Johnston (1937), and E. L. McClain (1939).

Los Angeles:

The annual summer outing of LACMA was held at the Riviera Country Club near Santa Monica on Saturday, August 3. Nearly 300 members and friends of the Association voted thanks for an enjoyable occasion to President-elect, J. N. Rossell, Dohrmann Hotel Supply Co., who was in charge of arrangements.

Chicago:

To fill the vacancy left by the resignation of Sec. J. F. O'Keefe, Frederick H. Schrop, NACM Credit Congress Director, has been appointed Secretary pro-tem of the Chicago ACM.

Mr. Schrop, besides his convention duties, has been active in local and national association work for a number of years. For the past year he has served the local organization as Director of Sales. Previously he was active here in connection with the raising of funds in this area for the NACM Development Program.

Mr. Schrop has had a distinguished career in the credit profession, having been a credit manager of the Studebaker Corp.; Asst. Treas. and Credit Mgr. of the South Bend Watch Co.; Treas. of the Colin B. Kennedy Corp., South Bend, Ind.; Sec.-Treas. and later Pres. of the South Bend ACM; and a Director of the NACM.

During his experience with the NACM, Mr. Schrop served on many important committees, notably the National Exec. Membership Committee of which he was Chairman, an assignment usually delegated to the immediate past national president.

During the first World War he served his country in the Intelligence Service of the Federal Government.

In announcing the retirement of J. F. O'Keefe in a letter to the membership, Chicago ACM President A. L. Podrasnik, Chicago Times, Inc., paid tribute to a man who had devoted 20 years of "faithful, conscientious service to our Association, which is appreciated by the credit fraternity, both locally and nationally."

Pointing out that Mr. O'Keefe had made no announcement of his future plans, President Podrasnik stated, "I feel sure that all members join me in extending our best wishes for success."

Omaha:

Officers of the Omaha ACM for the current year are as follows: Pres., Chas. R. Moore, A. Y. McDonald Mfg. Co.; 1st Vice Pres., A. C. Walstrom, Bemis Bro. Bag Co.; 2nd Vice Pres., H. E. Rogers, U. S. National Bank.

Committee Chairmen are: Adjustment & Business Service, H. C. Zimmerman, Baker Mfg. Co.; Collection Dept., A. C. Walstrom, Bemis Bro. Bag Co.; Credit Methods & Practices, A. T. Halpin, Omaha Bakers Supply; Councillor, H. R. Burke, Eggers-O'Flying Co.; Educational, B. W. Stauff-

facher, Westinghouse Electric Supply Co.; *Finance*, Geo. O. Gill, World Publishing; *Good Fellowship*, J. P. Fisher, Falstaff Brewing; *Insurance*, Jos. Barker, Jr., Foster-Barker Co.; *Ladies*, Henrietta Lamb, Martin Bros.; *Legislative*, D. H. Baldwin, Cook Paint & Varnish; *Membership*, R. J. Ulman, Tootle-Campbell D. G.; *Program & Entertainment*, S. E. Hilburger, Fairbanks-Morse; *Taxation*, Jacob H. Imig, Irwin-Imig Co.

"Bill of Rights" booklet sent by New Haven "C" men

An extra-ordinarily interesting booklet explaining the Bill of Rights, the heart of the United States Constitution, has been issued by The Service Corporation of the NACM in New Haven and sent to the entire membership in that area.

In its 30 pages the booklet carries the complete Constitution but the main emphasis is on the interpretation of the first ten Amendments known as the Bill of Rights.

It is pointed out that "this retelling is not to be thought of as a kind of revised or modern version, nor as a translation into the popular vernacular. In point of simplicity and directness of statement the authors of the Amendments left nothing more to be done in this direction. They knew only too well, however, of the sources of much of the unhappiness of the human race; they knew the long story of oppression and rule by autocrats; but best of all

they were familiar with the new ideas of popular rights that until within the memory of men then living, had been usually regarded as revolutionary. These ideas they wished to establish as the foundation of the American government. And—they desired to make them fast for all time.

"These ideas, with all their implications for the future, the author hoped to get into his retelling of the Amendments. In this way the story would be continuous as it could not be told by the use of asterisks and foot-notes, which would have the effect of breaking up the reader's current of thought."

Farrell endorsed for Providence City Council

Providence—Henry T. Farrell, Executive Secretary of the Rhode Island ACM, was recently given editorial endorsement by "The Providence Journal" for reelection to the new City Council. Mr. Farrell has been a Council member for eight years and a year ago last February was the first member of the Council to sponsor Charter revision, which was later approved by the voters of the City and the Rhode Island Legislature.

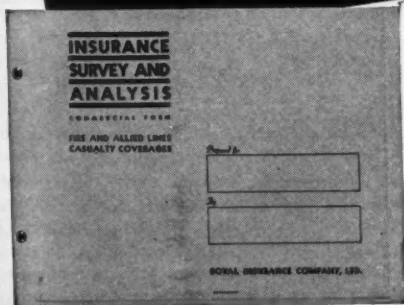
Commenting upon his candidacy the local newspaper referred to him as having shown "independence, sound judgment and a progressive outlook" and as being "the type of candidate which should be encouraged in this city."

Two NACM men debate discounts in "The Rotarian"

Chicago — Two well-known NACM members will be featured in the Sept. issue of "The Rotarian," in a forum debate entitled "Abolish the Cash Discount?" They are Clarence Beecher of the Auto-point Co., Chicago, and Wm. G. Betsch, William Iselin & Co., Inc., New York. Mr. Beecher takes the affirmative and Mr. Betsch the negative side. A short introduction to the debate will be carried in the form of a brief article by NACM Exec. Mgr. Henry H. Heimann. Both Mr. Beecher and Mr. Betsch have contributed previously to "Credit and Financial Management," Mr. Beecher presenting his views on the discount problem in the Sept. 1939 and Mar. 1940 issues.

Rochester names Lennox

The following new officers and members of the Board of Directors of the Rochester ACM took office on July 1st for the ensuing year: *Pres.*, George C. Lennox, Lincoln-Alliance Bank & Trust Co.; *1st Vice Pres.*, E. C. Junker, Eastman Kodak Co.; *2nd Vice Pres.*, Roy L. Guyer, Jackson & Perkins Co.; *Treas.*, Walter H. Lapham, Weed & Co.; *Sec.*, Herbert T. Haidt, Rochester ACM; *State Councillor*, E. J. Connor, Defender Photo Supply Co. Directors are: C. G. Beardsley, Taylor In-



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MUTUAL PRINCIPLES WERE ENDORSED BY JOHN MARSHALL

In 1795, John Marshall reported to a group of Richmond citizens on a plan for the organization of a mutual insurance company. The ideas which Marshall endorsed were the great mutual principles of ownership and management in the hands of the policyholders, careful selection of risks, and the furnishing of reliable insurance at low cost.

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Zebraffairs

Fellow Zebras:

Beginning with this issue, "Zebraffairs" will include a monthly message from your Grand Exalted Superzeb. So many of you were unable to attend our Sixth Annual Round-up in Toronto, Canada, last May that I think it only fitting and proper that you be acquainted with some of the things that happened at this affair. It is planned that over the course of the next few months these various things will be taken up with you in this column.

The following men were elected at Toronto to serve for the 1940-41 year; *Grand Exalted Superzeb*, H. T. Kelley, San Francisco; *Most Worshipful Divizeb*, Robert Harrell, Los Angeles; *Most Worshipful Divizeb*, G. W. Wilkins, Memphis, Tenn.; *Most Worshipful Divizeb*, R. H. Fried, Pittsburgh, Pa.; *Grand Zebratary*, Owen S. Dibbern, San Francisco; *Grand Zebratary*, E. B. Moran, Chicago, Ill.

These new officers have all enthusiastically pledged themselves to do all that is humanly possible for the good of the NA CM and the ROZ during this year.

In accepting the honor of being elected to the position of your Grand Exalted Superzeb, I mentioned that one of my very strongest objectives for the Zebras' 1940-41 year, and the only one I'll write about this month, was the fact that the roster at the end of the fiscal period should contain the names of one thousand active Zebras.

That means we must work on membership, both for your local association and for your local Zebra Herd. Membership is the very backbone of our organization. This objective is uppermost in my mind. It is really going to be accomplished during this coming year for I know I can depend on each of you giving it your 100 per cent cooperation.

This does not mean, of course, that this work is confined to only those local associations having Zebra Herds at the present time. To those locals who do not have a Herd, I want to say that they are extremely welcome, and we sincerely want them to participate in this program. Upon proper interest and qualification, they might be able to organize a Herd of their own, for much can be gained by having one in their chapter—something I will write about in another issue.

I would like to mention one thing more before my message to you for this month is closed. Nothing would be finer than to see in this column monthly, in addition to the reporting of your local Zebra affairs, the progress you are making in this very important membership work. Let's all of us really do a bang-up job this coming year and go way over the top on that ob-

jective. With your earnest help and cooperation it's a cinch.

See you in this column next month.

Zebraically yours,
Herb Kelley,
Grand Exalted Superzeb.

Milwaukee:

Members of the Milwaukee Herd, ROZ, challenged members of the Milwaukee ACM recently to decide the baseball championship. After seven innings the game was called with a tie score of 12-12. There was no continuation of the game because the score keeper came through with a 12-11 score at first and the tie was not noted until a later recapitulation. Eighteen Zebras and Association members attended and refreshments during and after the game were enjoyed. The local Herd has several prospects ready for initiation and plans for a big season are developing.

Detroit:

Chas. E. Dawson, Exalted Superzeb, has notified the local Herd of a meeting to be held on Wednesday evening, Sept. 25. This meeting will be given over to working out the fall and winter program. It is the desire of the officers to make this one of the best years for the local Herd and some very interesting plans for the pleasure of the local Herd will be presented. Mr. Dawson left in June to take his family out to California for the summer. He just returned and is full of enthusiasm for the Zebras after visiting with some of the officers of the Los Angeles Herd.

Los Angeles:

Herd #1 of ROZ installed the following new officers on Sept. 1: *Exalted Superzeb*, Ron Duke; *Most Noble Ass of Asses*, J. F. Buehner; *Royal Jackass*, Winston T. Barr; *Three Horsepower Burro*, Lester Fishbeck; *Keeper of the Zoo*, Floyd Asper. The Herd is currently conducting activity to stimulate its treasury, and extensive plans are being made by the new officers for increased activities in the year ahead.

Our Distaff Side

Credit Executive—Well-rounded experience, practical, broad-minded, well known as goodwill creator, aggressive and appreciative of the relationship between sales and credits; recently connected for 15 years as Eastern Credit Manager of large nationally known men's wear concern and supervised credits for 11 million volume; practically doubling collection average and reducing collection expense to a minimum. References and character very highest. Available immediately for employment in greater New York area. Address Box 91, Credit and Financial Management, 1 Park Ave., New York.

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Promotions

Chicago—Karla J. Howe (Mrs. A. D. Jack in private life) has been elected President of her firm, Great Lakes Varnish Works, Inc.

Irene Austin, for several years credit manager of Thinshell Products, Inc., has been made General Credit Manager of Consolidated Biscuit Company, of which Thinshell Products is one division.

Obituary

Sydney B. Owen

Tampa—One of the most colorful characters in the Credit Association field was lost when Sydney B. Owen died here on July 23. He was Secretary of the Tampa ACM for many years and a leader in Tampa business circles. He is survived by Mrs. Owen and a daughter. A special tribute was paid him on July 25 when the following editorial appeared in the Tampa Tribune:

"Sydney B. Owen had been closely associated with Tampa business for so many years that he was regarded as an inseparable part of it. First actively in business himself and then through his important functions for the Association of Credit Men, he was identified with practically every phase of the city's commercial activity. And so it seems unbelievable that he has passed from the scene, that the place he so capably filled is vacant. It will be difficult to adequately replace him.

"Syd Owen also was prominent and valuable in civic and fraternal organizations—altogether a straightforward, earnest and loyal citizen. We join in the condolence the community extends to his family and intimate associates."

Phillip Chase

Los Angeles—Funeral services for Philip Chase, son of S. P. "Vane" Chase, Secretary-Manager of the Los Angeles CMA, were held August 7 at the Church of St. Paul the Apostle in Westwood.

Creducation

Baltimore—A course in Advanced Credits has been announced by the Chapter. Walter B. Wessels, Treas. Porcelain Enamel Co., has been selected as instructor. This course will be limited to those of five years experience for those who have taken a course in Cred. and Coll.

Honolulu—Our furthest west Chapter will initiate a program of education during the month of Sept. in cooperation with the University of Hawaii.

Lexington—A new Chapter has been organized and the formal educational program will be offered in cooperation with the University of Kentucky.

Newark — Rutgers University Extension Division has announced a curriculum of courses in credit management to be given in Jersey City. Those registering in these courses will be eligible for the Institute awards.

Peoria — Miss E. M. Dunn, Secy.-Mgr., has announced that plans are progressing to offer Institute courses this coming year.

Philadelphia—An educational committee, headed by H. C. Culshaw of the Pennsylvania Company, will soon announce plans for an active Chapter program.

St. Louis—L. A. Ernst of Cluett, Peabody Co., has been appointed Chairman of the Cred. Ed. Com. He will instruct the course

in Advanced Credits.

Spokane—This Chapter plans to continue its educational activities with a course in Economics offered in cooperation with the State College of Washington at Pullman, Wash.

Twin Cities — Arrangements have been made with the University of Minnesota Exten. Div. to offer the formal courses of the Chapter in St. Paul and Minneapolis.

Wheeling—After a lapse of several years, an educational program under the National Institute of Credit is to be revived this coming year under the direction of Jim Ford of the Wheeling Steel Corp., Chairman of the Ed. Com.

His job has just begun



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Bad Debt Loss Survey — Part II

(Continued from page 15) for 1,319 manufacturers, also shown in figure 5, disclosed an even lower proportion of the charge-off, between 33 and 35 percent, which could be allocated in 1938 or 1939 to current credit sales.

The indication that wholesalers take more rapid action than manufacturers in the write-off of accounts probably may be attributed to conditions of greater relative mortality among their retail creditors. It should also be noted that the data for both wholesalers and manufacturers show that a larger proportion of the 1938 charge-off is attributed to sales of that same year than is found to be the case with the analysis of current- and prior-year distribution of the gross loss for 1939, despite the fact that there was some increase in the absolute amount of the gross write-off of both wholesalers and manufacturers in 1939. This may indicate that there was delayed action until 1939 in the charge-off of bad accounts acquired under the rising business conditions of 1937 and prior years, thus raising the proportion of the charge-off representing accounts more than 2 years old.

Considering the factor of age of accounts charged off, as well as the other variables which form the basis of bad-debt-loss ratios, there is abundant evidence that these convenient loss indices are extremely deceptive. To secure an accurate bad-debt-loss percentage of sales for a given year would require delay in computation until all accounts arising from sales of that year had either been collected or proved definitely to be uncollectible. This might mean that corrected loss ratios could not be computed for a matter of years, or until the last accounts

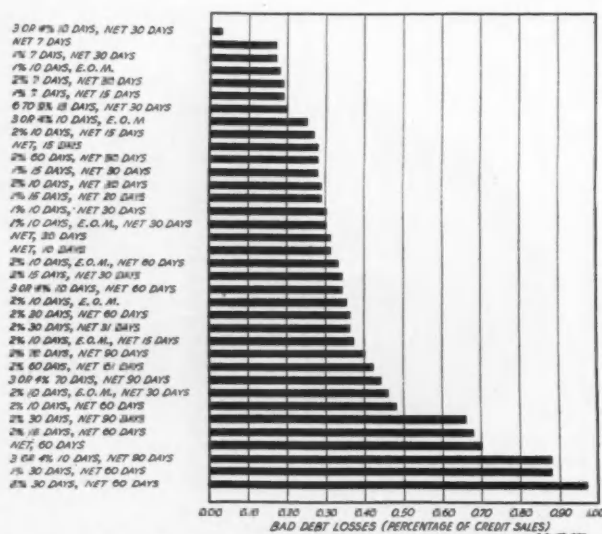


Figure 6.—Range of 1939 Bad-Debt Losses of Wholesalers, Grouped According to Credit Terms

were charged off and final recoveries made on accounts which gradually worked out after a write-off.

While perhaps a practical device from the accounting standpoint, the present standard method of carrying forward recoveries and delayed account write-off for computation with unrelated current sales and current-loss figures leads to the utmost confusion as to exactly what comparative values the consequent loss ratios may have. Granting that the availability of figures on the various elements which compose the loss ratios will be determined

largely by expedient accounting methods, perhaps a practical solution for the future is to base comparisons of bad-debt-loss experience on changes in the absolute magnitude of separate items now entering into the ratio computations, but leaving the ratios as merely incidental elaborations.

Credit Terms and Bad-Debt Losses

It is almost axiomatic that progressive liberality in credit granting is productive of higher losses. If it were not for the factor of credit management, this would probably be so self-evident as to require no elaborate statistical preparation for measurement. However, accepting credit management as an element in the problem, the present study sets forth data relating bad-debt losses of wholesalers and manufacturers to the credit terms which they usually offer to their customers.

Basically, credit terms are made up of three factors, which, for the purposes of this study, are designated as (1) cash discount extended, (2) time in which cash discount may be taken, and (3) time at which net amount of invoice is due. In the tremendous maze of arrangements of credit terms reported by more than 2,200 wholesalers, it was possible to classify within reasonable limits a total of 128 separate arrangements of credit terms, only 36 of which were reported by a sufficient number of firms to be of use in this study. The remaining 92 wholesalers' arrangements of credit terms were reported by only one to three firms, or could not be classified. Classifications do not take into consideration extra dating granted by some concerns, nor do they provide for any other than the terms most frequently granted by a firm (i.e., "usual credit terms" were reported). Despite this great diversity, the six terms most frequently used were employed by more than one-half the reporting wholesale concerns.

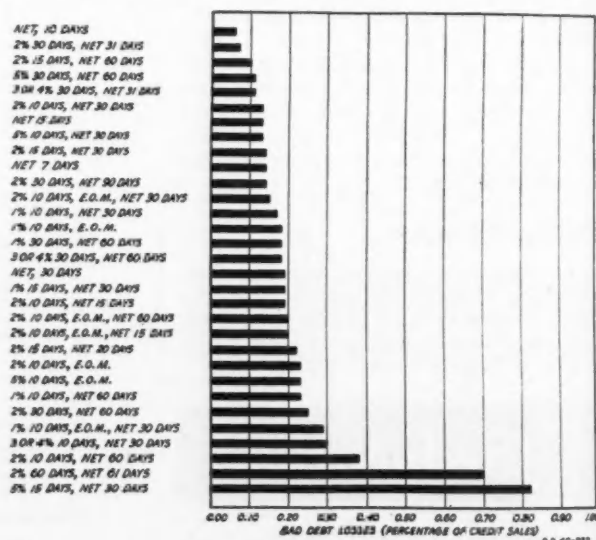


Figure 7.—Range of 1939 Bad-Debt Losses of Manufacturers, Grouped According to Credit Terms

Almost 1,500 manufacturers reported a total of 109 separate arrangements of credit terms, of which 31 were reported by a sufficient number of firms to be used in the tables. The remaining 78 arrangements were represented by less than four firms, or could not be classified. As with wholesalers, despite the multitude of terms, the three arrangements used most frequently were employed by more than one-half the industrial companies submitting such information.

Range of Losses by Classifications of Credit Terms

Considering the composition of credit terms as an abstract matter, the most evident measure of conservatism or liberality is the maximum period permitted for payment of the net invoice, after which date pressure or penalties may be applied to force payment. The cash discount, and the period in which such discount can be taken, may be viewed as in the nature of secondary inducements; although they, too, may express either conservative or liberal tendencies. As an illustration, 90 days net in a particular industry may be relatively liberal, but from one point of view the net period appears progressively more conservative if a cash discount is added for the sole purpose of inducing more rapid payment. Likewise, in the same case, shortening of the period in which cash discount can be taken is a further evidence of conservatism where such action is applied to hasten payment. But where these secondary features do not actually contribute to more rapid collections, the extended net periods, plus high cash discounts and protracted periods in which discount can be taken, run to the opposite liberal extreme.

It must be granted, however, that the complex of arrangements of credit terms cannot be examined in a vacuum. Terms in real use may not only reflect evaluation of credit risk, but they may also reflect the desire to promote sales under conditions of severe competition. From the latter angle, higher cash discounts with the objective of promoting sales represent increasing liberality, and not conservatism in the interest of promoting collections. Consequently, with terms of payment in some measure expressing an appraisal of credit risk in the interest of collections on the one hand and a sales-promotion device on the other, it would be virtually impossible to array all combinations of credit terms, from conservative to liberal, to indicate the precise importance of each of the three components within each combination of terms.

Recognizing these complications and the fact that this study seeks only to determine any possible connection between losses and credit terms, the obvious alternative is to array average losses from high to low by groups of firms having uniform terms to see if there is any consistent tendency in the terms as the losses progressively increase. This arrangement for wholesalers is shown in figure 6 and for manufacturers in figure 7, based upon data presented in tables 13 and 14.

Neither of these presentations provides sweepingly conclusive evidence of a direct and progressive relationship between liberality in one or more of the terms components and the range of losses from low to high brackets. To a noticeable extent, however, and particularly in the data for wholesalers, the highest loss groups suggest a long net period as a basic factor, and possibly liberal time permitted to discount. Conservative terms are also noted at the low loss range for wholesalers, but fairly liberal terms are found in the corresponding loss range of the data for manufacturers, for whom the relation between terms and losses is by no means so well defined. Possibly a clearer case for high losses resulting from liberal terms, and vice versa, could be shown in this type of analysis by securing larger samples than are given at present for many of the groups of both wholesalers and manufacturers.

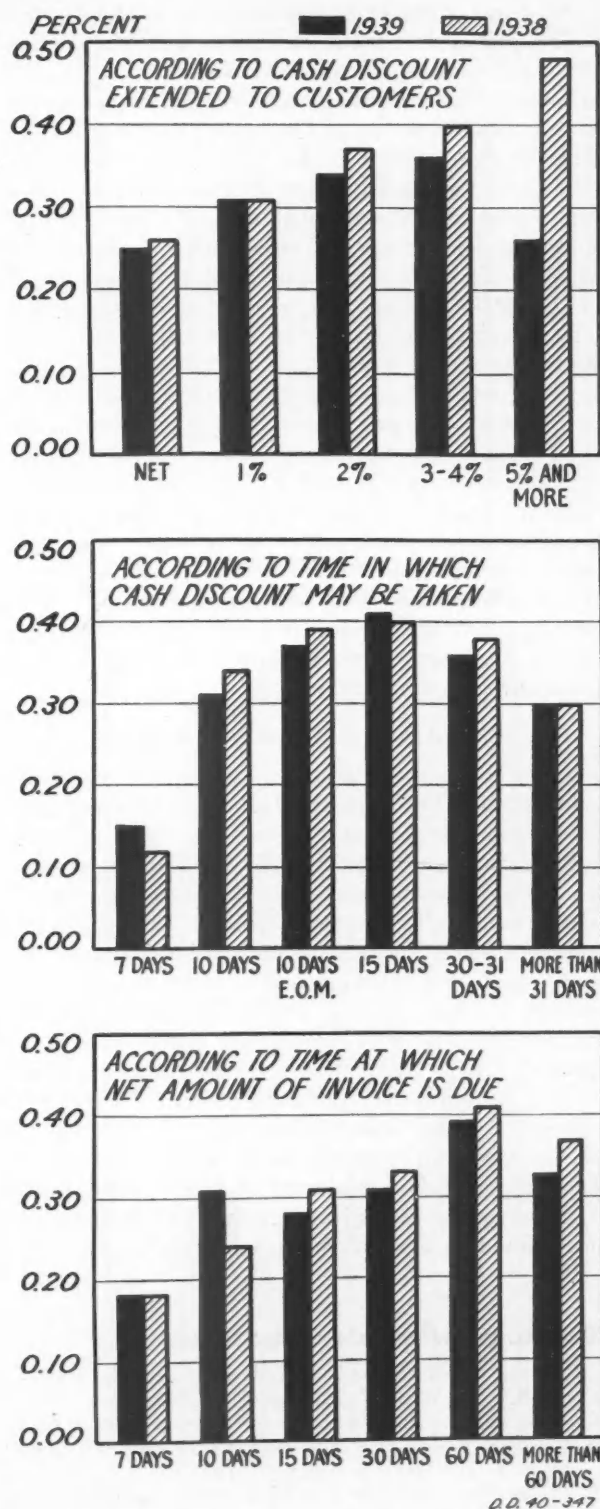


Figure 8.—Bad-Debt Loss Percentages of Wholesalers, Classified According to Credit-Term Factors

Analysis of Losses by Individual Terms Factors

An analysis of bad-debt losses by groups of wholesalers and manufacturers classified according to each of the three elements composing terms is presented in figures 8 and 9, which are based on the data in table 15. The two sections of both charts which classify losses according to cash discount and according to period for payment of net amount of invoice reveal, with some imperfections, a tendency for larger losses to follow higher cash discounts and longer terms.

As terms arrangements quote both discount and net period, it is evident that both factors cannot be dominant. Presumably, therefore, because of similarity in the scaling of losses in the classifications for each factor, the charts disclose that when one of these two factors is liberal, the other is also inclined to be. However, in the center sections of the charts, presenting losses classified according to time in which discount may be taken, the groups do not follow the loss trend visible in the upper and lower sections. Consequently, it may reasonably be assumed that this particular element can be more readily eliminated as a factor controlling losses than either of the two remaining components of terms.

In the wholesale data, there is indication that up to a certain point increased losses reflect progressive liberality in all three factors, but this is scarcely evident in the data for manufacturers. Beyond a 15-day period allowed for discount, it would appear that the more liberal limits of this element are associated with relatively conservative cash discounts and are probably fairly close to the final net periods of individual terms arrangements. Supplementary information on this problem is presented in tables 16 and 17, where terms are listed under each industry and trade according to prevalence of use.

Importance of Credit Management

In the main, the relation of credit terms to bad-debt losses indicates that, although liberality in terms is a definite factor contributing to losses, it is not an uncontrollable factor. If credit terms were dictated wholly by the desire of the customer or in the expedient interest of sales promotion, much more clear-cut evidence of progressively higher losses with each successive move away from conservatism would undoubtedly be shown. In contrast to this, the less precise relationship found in actual business is unquestionably the result of credit management and the constant supervision of accounts to make credit terms conform to appraisal of risk. The possibilities inherent in credit management are such that the wide scale of terms arrangements need not produce any more than the irreducible minimum of losses at one extreme or the other, for each of the multitude of terms arrangements could be adapted to its appropriate use.

10 Commandments of business

Here are "10 Business Commandments" recently carried in "Creditalk", the Wichita ACM weekly publication:

1. Don't wait for the other fellow to come to you; go to him.
2. In competition with others, always give them the credit of being a little smarter than you are.
3. If you have no money and little credit, capitalize on your personality. Sometimes it pays to have nerve.
4. Never admit to anybody—and least of all to yourself—that you are licked.
5. Keep your business troubles to yourself. Nobody likes a calamity howler—besides, he finds scant favor with the bankers.
6. Don't be afraid of dreaming too big dreams. It won't hurt you to figure owning a railroad, even if you have to compromise on a flier.
7. Make friends; but remember that the best friends wear out if you use them too frequently.
8. Be square even to the point of finickiness and you will have mighty little occasion to complain of a crooked world.
9. Take advice but do your own deciding.
10. Don't Toady. The world respects a man who can stand on his own legs and look the world in the eye.

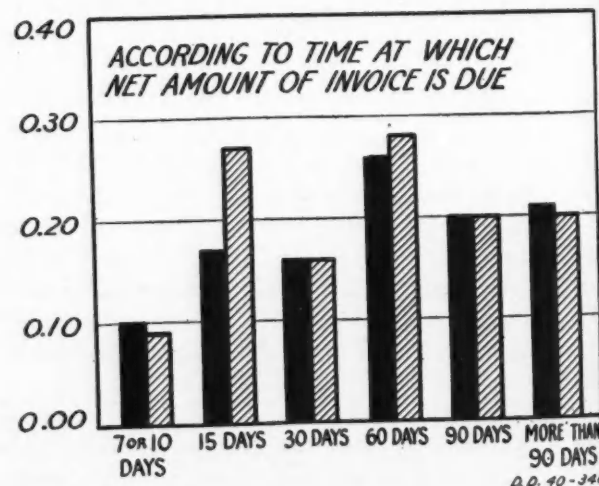
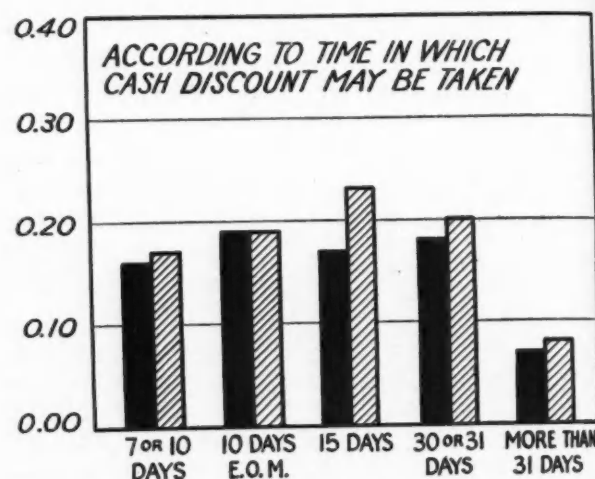
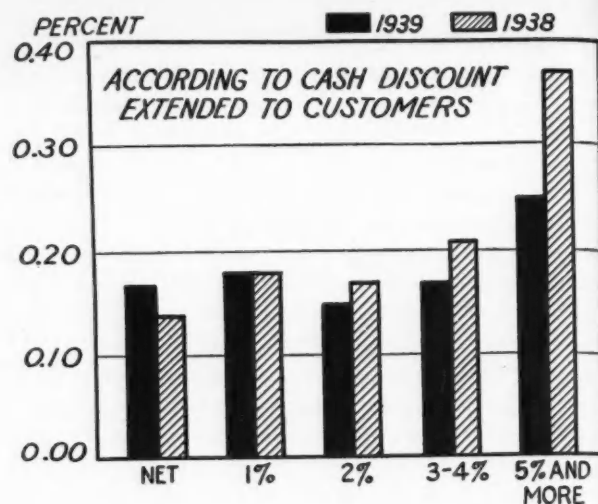


Figure 9.—Bad-Debt Loss Percentages of Manufacturers, Classified According to Credit-Term Factors

Tables Number 4 and 5 will
be found on Pages 43 and
44 in this Issue.

Table 4.—Proportion of Bad-Debt Losses to Credit Sales of Manufacturers, by Industries, Classified by Size of Establishment, 1939 and 1938

Industry	Total of all groups			Size groups (based on total sales for 1939)											
	Number of reports			\$5,000,000 and over			\$1,000,000 to \$5,000,000			\$500,000 to \$1,000,000			\$300,000 to \$500,000		
		1939	1938	Number of reports	1939	1938	Number of reports	1939	1938	Number of reports	1939	1938	Number of reports	1939	1938
Food and kindred products, total	373	0.14	0.12	38	0.11	0.08	91	0.20	0.21	68	0.40	0.33	44	0.49	0.59
Confectionery	168	.19	.21	9	.13	.15	25	.16	.17	35	.39	.40	23	.45	.35
Flour, cereals, other grain-mill products	22	.20	.23				12	.14	.21	2			3		
Meat packing	24	.13	.13	7	.11	.12	11	.15	.13	5	.31	.28	1		
Distilled liquors	10	.05	.01	4	.03	.01	3			1			1		
Malt liquors	20	.27	.17	3			5	.58	.35	2			2		
Wine	19	.72	.93				4	.28	.64	3			2		
Other food products	110	.12	.08	15	.10	.06	31	.20	.19	20	.14	.14	12	.41	.28
Textiles and their products, total	118	.17	.23	17	.11	.20	42	.22	.23	21	.27	.37	13	.52	.51
Clothing, men's, except hats	29	.30	.29	2			16	.33	.30	6	.27	.57			
Clothing, women's, except millinery	20	.26	.32				6	.22	.26	8	.35	.36			
Knit goods	12	.17	.22	2			6	.20	.29				4	.40	.33
Other textile products	57	.12	.20	13	.10	.21	14	.10	.10	7	.18	.17	9	.57	.60
Forest products, total	61	.27	.32	2			10	.13	.20	18	.29	.41	11	.72	.43
Furniture	33	.27	.36				7	.14	.24	13	.34	.52	6	.40	.21
Lumber, timber, and other miscellaneous forest products	28	.28	.26	2			3			5	.17	.10	5	1.06	.64
Paper and allied products, total	82	.12	.15	13	.11	.12	23	.12	.20	16	.24	.29	10	.22	.59
Paper: writing, book, etc.	17	.10	.11	3			2			5	.05	.10	1		
Wax paper	12	.16	.15	3			4	.17	.17	3			1		
Paper boxes, and other paper products	53	.11	.17	7	.11	.12	17	.09	.18	8	.32	.47	8	.23	.74
Printing, publishing, and allied industries	53	.42	.38				7	.43	.38	10	.44	.36	7	.34	.15
Chemicals and allied products, total	127	.31	.30	7	.13	.19	37	.36	.32	27	.68	.52	19	.51	.54
Pharmaceuticals and proprietary medicines	25	.24	.30	2			8	.20	.27	6	.50	.47	2		
Paints and varnishes	62	.57	.45	1			16	.51	.36	14	.82	.65	11	.50	.59
Other chemical products	37	.20	.22	4	.10	.16	13	.29	.30	7	.58	.29	6	.55	.47
Petroleum products	19	.24	.21	10	.24	.22	6	.15	.04	1					
Rubber products	13	.14	.25				7	.14	.12	2			1		
Leather and its products, total	78	.16	.18	7	.08	.09	23	.22	.28	23	.29	.25	4	.42	1.03
Boots and shoes	24	.17	.18	2			9	.33	.39	11	.35	.30	1		
Leather: tanned, curried, and finished	33	.15	.19	5	.13	.16	11	.13	.20	8	.30	.17	3		
Other leather products	21	.17	.18				3			4	.11	.27			
Stone, clay, and glass products, total	63	.25	.20	1			21	.36	.34	13	.36	.29	8	.50	.53
Illuminating glassware (globes, shades, reflectors, etc.)	10	.21	.32				4	.19	.29	2			1		
Other stone, clay, and glass products	53	.25	.19	1			17	.39	.35	11	.38	.31	7	.54	.52
Iron and steel and their products, total	147	.09	.08	15	.05	.03	52	.14	.12	21	.16	.39	20	.19	.13
Hardware	14	.15	.12	1			6	.22	.23	3			1		
Stoves, ranges, steam heating apparatus	22	.25	.28	1			8	.21	.25	3			2		
Other iron and steel products	111	.07	.06	13	.05	.03	38	.11	.07	15	.12	.33	17	.15	.12
Nonferrous metals and their products, total	58	.15	.10	7	.12	.03	13	.19	.25	14	.22	.33	5	.39	.12
Jewelry and jewelers' supplies	28	.16	.06	2			7	.17	.13	5	.27	.31	4	.44	.13
Other nonferrous metals	30	.15	.13	5	.13	.06	6	.20	.35	9	.19	.33	1		
Machinery, not including transportation equipment, total	200	.19	.24	18	.16	.20	63	.22	.33	39	.26	.24	30	.35	.39
Electrical machinery, apparatus and supplies	90	.09	.12	10	.06	.10	32	.18	.17	16	.38	.19	12	.18	.23
Other machinery, apparatus, and supplies	110	.39	.51	8	.51	.53	31	.25	.53	23	.18	.27	18	.56	.56
Motor-vehicle parts	37	.13	.13	2			16	.12	.15	6	.49	.13	4	.16	.26
Miscellaneous industries	64	.18	.15	4	.13	.05	20	.17	.16	8	.61	.54	13	.35	.45
Total	1,493	.17	.17	141	.13	.13	431	.21	.23	287	.35	.34	189	.41	.45

*Bad-debt-loss percentages not shown for samples of fewer than four firms.

Industry	Size groups (based on total sales for 1939)											
	\$200,000 to \$300,000			\$100,000 to \$200,000			\$50,000 to \$100,000			Under \$50,000		
	Number of reports	1939	1938	Number of reports	1939	1938	Number of reports	1939	1938	Number of reports	1939	1938
Food and kindred products, total.	38	0.71	0.51	49	0.42	0.54	26	0.59	0.70	19	0.43	0.29
Confectionery	18	.33	.39	26	.39	.38	17	.57	.76	15	.48	.24
Flour, cereals, other grain-mill products	3			1			1					
Meat packing												
Distilled liquors	1											
Malt liquors	4	1.66	.37	2			2					
Wine	4	2.58	1.00	2			3			1		
Other food products	8	.47	.55	18	.49	.52	3			3		
Textiles and their products, total.	11	.60	.54	9	.35	.42	5	1.96	1.24			
Clothing, men's, except hats	1			4	.47	.50						
Clothing, women's, except millinery	4	.32	.70				2					
Knit goods												
Other textile products	6	.69	.39	5	.25	.35	3					
Forest products, total.	7	.64	.89	8	1.92	1.45	4	1.23	1.11	1		
Furniture	4	.39	.82	2			1					
Lumber, timber, and other miscellaneous forest products.	3			6	1.79	1.63	3			1		
Paper and allied products, total.	5	.13	.11	5	.07	.0	8	.61	.12	2		
Paper: writing, book, etc.	1			1			2			2		
Wax paper							1					
Paper boxes, and other paper products.	4	.15	.07	4	.10	.11	5	.84	.0			
Printing, publishing, and allied industries	5	.32	.45	12	.30	.65	8	.66	.53	4	.16	1.03
Chemicals and allied products, total.	10	.95	.65	19	.60	.63	2			6	2.28	.94
Pharmaceuticals and proprietary medicines	3			4	.75	.75				3		
Paints and varnishes	6	.73	.38	10	.58	.73	2			2		
Other chemical products	1			5	.49	.31				1		
Petroleum products				1								
Rubber products	1			2								
Leather and its products, total.	7	.19	.24	7	.31	.25	6	.70	.65	1		
Boots and shoes							1					
Leather: tanned, curried, and finished	4	.10	.17	2						1		
Other leather products	3			5	.29	.28	5	.77	.89	2		
Stone, clay, and glass products, total.	7	.05	.49	9	.93	.51	2					
Illuminating glassware (globes, shades, reflectors, etc.)	1			2								
Other stone, clay, and glass products	6	.01	.34	7	1.14	.50	2			2		
Iron and steel and their products, total.	12	.60	.52	13	.40	.20	9	.28	.23	5	.20	2.39
Hardware				1			1			1		
Stoves, ranges, steam heating apparatus		.43	.71	2						2		
Other iron and steel products	8	.69	.41	10	.29	.17	8	.22	.26	2		
Nonferrous metals and their products, total.	4	.82	.64	9	.75	.57	4	.42	.34	2		
Jewelry and jewelers' supplies	2			6	.74	.90	1			1		
Other nonferrous metals	2			3			3			1		
Machinery, not including transportation equipment, total.	11	.76	.62	26	.53	.33	6	.86	1.99	7	1.39	.35
Electrical machinery, apparatus and supplies	3			11	.49	.19	2			4	2.49	.31
Other machinery, apparatus, and supplies	8	.53	.54	15	.55	.43	4	.92	2.93	3		
Motor-vehicle parts	5	.45	1.18	2			2					
Miscellaneous industries	3			6	.68	.53	5	.44	.36	5	.16	.45
Total	126	.58	.62	177	.55	.51	87	.69	.66	55	.72	.51

*Bad-debt-loss percentages not shown for samples of fewer than four firms.

Table 5.—Proportion of Bad-Debt Losses to Credit Sales of Wholesalers, by Kinds of Business, Classified According to Average Credit Sales Per Account, 1939 and 1938

Kind of business	Average credit sales per account (based on 1939 figures)														
	Total of all groups			Firms averaging \$1,000 or more per account			Firms averaging from \$750 to \$1,000 per account			Firms averaging from \$500 to \$750 per account			Firms averaging from \$250 to \$500 per account		
	Number of reports	1939	1938	Number of reports	1939	1938	Number of reports	1939	1938	Number of reports	1939	1938	Number of reports	1939	1938
Automotive supplies.....	156	0.53	0.68	4	0.39	0.27	6	0.18	0.44	17	0.55	0.83	64	0.57	0.60
Chemicals (industrial).....	17	.18	.20	3	*	*	1	*	*	3	*	*	4	.26	.30
Paints and varnishes.....	28	.34	.27	1	*	*	2	*	*	2	*	*	10	.26	.47
Clothing and furnishings, except shoes.....	40	.32	.32	5	.11	.13	3	*	*	8	.99	1.08	12	.29	.39
Shoes and other footwear.....	34	.33	.41	9	.28	.28	2	*	*	5	.46	.64	12	.53	.81
Coal.....	9	.18	.11	8	.18	.12	1	*	*	1	*	*	7	.36	.39
Drugs and drug sundries.....	66	.33	.35	40	.34	.40	14	.28	.20	1	*	*	5	.41	.52
Without liquor department.....	51	.28	.31	30	.29	.34	11	.24	.20	1	*	*	7	.36	.39
With liquor department.....	15	.44	.46	10	.44	.51	3	*	*	2	*	*	2	.51	.39
Dry goods.....	108	.27	.31	21	.18	.29	11	.37	.41	18	.19	.22	31	.31	.29
Electrical goods.....	217	.24	.24	60	.20	.20	27	.56	.43	19	.38	.46	21	.50	.44
Farm products (consumer goods).....	89	.27	.25	35	.16	.13	17	.61	.62	16	.35	.39	11	.24	.23
Dairy and poultry products.....	14	.17	.14	6	.09	.09	3	*	*	3	*	*	2	*	*
Fresh fruits and vegetables.....	75	.34	.32	29	.22	.18	17	.61	.62	13	.43	.48	9	.22	.26
Furniture and housefurnishings.....	52	.33	.33	13	.24	.26	4	.29	.58	12	.49	.31	9	.51	.39
Confectionery.....	20	.39	.40	1	*	*	3	*	*	6	.70	.62	10	.46	.50
Meats and meat products.....	56	.25	.25	36	.22	.23	6	.40	.33	8	.48	.28	5	.49	.71
Groceries and foods (except farm products).....	480	.30	.33	240	.26	.26	78	.28	.29	69	.45	.52	58	.44	.53
Full-line wholesale grocers.....	245	.32	.30	118	.30	.27	52	.26	.26	34	.51	.41	32	.37	.40
Voluntary-group wholesale grocers.....	119	.33	.39	83	.26	.28	18	.31	.39	12	.52	.66	5	.53	.85
Retailer-cooperative wholesale grocers.....	13	.05	.05	12	.06	.05	1	*	*	1	*	*	21	.51	.38
Specialty-line wholesale grocers.....	103	.29	.35	27	.20	.25	8	.52	.37	22	.30	.40	5	.40	.22
Beer.....	14	.50	.56	1	*	*	2	*	*	5	.31	.73	5	.40	.22
Wines and spirituous liquors.....	19	.47	.34	7	.45	.35	2	*	*	3	*	*	4	.58	.36
Hardware group.....	402	.39	.39	73	.41	.26	53	.26	.38	86	.51	.49	105	.33	.37
General hardware.....	132	.35	.41	13	.21	.23	19	.21	.35	33	.64	.56	45	.33	.37
Heavy hardware.....	29	.16	.26	3	*	*	2	*	*	7	.29	.35	6	.22	.18
Industrial supplies.....	153	.40	.29	24	.51	.20	13	.30	.30	29	.16	.34	42	.36	.44
Plumbing and heating supplies.....	88	.59	.54	33	.62	.47	19	.52	.65	17	.60	.51	12	.50	.46
Jewelry.....	36	.50	.71	9	.34	.38	6	.65	.11	8	1.20	1.00	5	.23	.47
Lumber and building materials.....	40	.35	.44	18	.38	.48	5	.34	.46	4	.07	.25	5	.31	.36
Machinery, equipment, and supplies, except electrical.....	65	.60	.85	17	.78	.99	7	.07	.52	5	.33	.61	20	.80	.87
Surgical equipment and supplies.....	32	.18	.08	2	*	*	2	*	*	2	*	*	9	.10	.01
Metals.....	20	.22	.30	8	.34	.56	2	*	*	5	.21	.18	3	*	*
Paper and its products.....	84	.40	.39	18	.26	.46	9	.48	.29	11	.19	.12	17	.70	.44
Petroleum.....	11	.16	.17	4	.15	.14	2	*	*	2	*	*	2	*	*
Tobacco and its products.....	120	.19	.23	34	.19	.17	22	.18	.27	26	.16	.22	23	.22	.28
Leather and shoe findings.....	11	.54	.37	1	*	*	3	*	*	7	.27	.39	4	1.18	.39
Miscellaneous.....	57	.33	.30	11	.26	.40	3	*	*	7	.27	.39	12	.40	.36
Total.....	2,283	.31	.33	679	.26	.26	283	.32	.36	343	.39	.42	464	.42	.44

*Bad-debt-loss percentages not shown for samples of fewer than four firms.

Reorganizations Under Chandler Act — Part II

(Continued from page 21)

Conclusions

While experience with the new provisions of Chapter X has not been sufficient to enable final conclusions to be drawn, the results obtained so far have been definitely desirable. "Disinterested" trustees have functioned satisfactorily in managing complicated business structures, in investigating claims against past management for misconduct and negligence, and in formulating plans and securing general acquiescence to the terms of such plans. The Securities and Exchange Commission has been a constructive force, and its legal and technical advice has been helpful to courts, trustees and other interested parties.

Chapter XI requires revision in a number of respects. It should be amended: (a) to specify the corporations subject to its provisions; (b) to clarify the principles applicable to its plans of arrangement; (c) to permit creditors to file the petition and give them a greater voice in the proceedings; and (d) to include adequate provisions for the allowance of compensation for services rendered by interested parties and their committees and attorneys.

But see *In re Detroit International Bridge Co.*, S. E. C. Corp. Reorg. Release No. 9 (1939), C. C. H. Bankr. Serv. ¶ 51,709 (E. D. Mich. 1939), where, although the assets of the corporation were worth only a fraction of the amount of the first mortgage debt, the Securities and Exchange Commission approved a plan which permitted the issuance of warrants to stockholders, although no new consideration was to be furnished by them. This was done to obtain their consent to amendments to the charter of the corporation so as to avoid the necessity of forming a new corporation and the possible difficulties which might arise through the transfer of the bridge franchises to such new corporation.

Perhaps it should be completely rewritten to provide a streamline procedure for the reorganization of small corporations while something similar to the old section 12, dealing with compositions, should be restored for individual bankrupts.

The well reasoned opinion of Mr. Justice Douglas in the *Los Angeles Lumber Products Co.* case, is an important landmark. It clears away a number of misconceptions regarding the treatment of senior and junior interests in a plan of reorganization. It will supersede the *Boyd* case as the primary source of authority for the principles to be applied in a plan.

U. S. Judge Knox lauds "C" executives

The Honorable John Clark Knox, Senior Judge of the United States District Court, New York, has the following to say concerning the Credit Profession:

You stand not in the shadow of things that are past and done; but in the bright sunlight that floods the market place. Once you have entered the marts of trade and have set up your stand, you will be charged with a responsibility as great as can come to the practitioner of law, of medicine, or anything else. The physician may be of great service to a patient and those depending on him. The lawyer may save the client from the consequences of his folly and, thus, be entitled to thanks and substantial fee. But your work as a Credit Man will be of wider scope. It will touch every field of trade, industry and commercial activity. The sum total of your labors will determine whether the people of the land are to be prosperous and happy, or whether they shall be distressed and stricken with poverty.

The Business Thermometer:

Compiled by the Bureau of Foreign and Domestic Commerce and
the Bureau of Census of the U. S. Department of Commerce

Compilation of data on manufacturers' sales and receivables, previously presented in the "Business Thermometer", has been discontinued by the U. S. Dept. of Commerce. This action was taken because the new monthly Industry Survey, recently inaugurated by its Bureau of Foreign and Domestic Commerce, provides a more comprehensive review of the manufacturing industry.

The Industry Survey was undertaken to fill certain important statistical gaps in existing current business information. The Survey is designed to meet the need for representative measures of monthly changes in the value of inventories, new and unfilled orders, and shipments for manufacturing as a whole and for major industry groups.

While the new Survey data are not published for all the industrial classifications previously shown, the sample of manufacturing industry upon which it is based provides a much clearer indication of the actual trends for industry as a whole.

It is estimated that companies cooperating in the Survey account for nearly 40 percent of all manufacturing activity in the United States. The size

and composition of the sample are considered adequate, with proper weighting, to provide a reliable measure of the monthly movements in the items covered for manufacturing as a whole and for a large proportion of the major industry groups.

Data are now published separately for those groups where the sample is believed to be satisfactory, and as coverage is rounded out figures for other industry groups will be added.

Copies of the monthly Industry Survey may be secured directly by interested N.A.C.M. members. Requests should be addressed to the Bureau of Foreign and Domestic Commerce, Washington, D. C.

The new index of monthly changes in manufacturers' inventories is of particular significance and is shown below. It is now generally recognized that inventory fluctuations sometimes play a major role in business movements. Although important inventory movements occur in all branches of industry, the largest element of variation is found in manufacturing where inventory holdings are not only very large but also subject to rapid fluctuations of great magnitude.

It is estimated at the end of 1939 that the total value of manufacturers' inventories amounted to about \$10.6 billions or approximately 58 percent of the combined total for manufacturing, wholesale trade and retail trade on that date.

The range of fluctuation and rapidity of movements in manufacturers' stocks as revealed by the Industry Survey data are also worth noting. Between the end of June 1939 and the end of February 1940 there was a net estimated increase in the inventory holdings of manufacturing concerns amounting to more than \$1.4 billion. Well over half of the increase occurred during the last quarter of 1939. This was undoubtedly a major factor in the rapid rise in manufacturing activity which occurred in the latter part of 1939 and carried production to a record high in December.

Inventory accumulation was terminated in March. After declining rather markedly in April, stock holdings have leveled off and very little change was recorded between May and June despite the sharp rise in manufacturing production which occurred in the latter months.

Index of Value of Manufacturers' Inventories* (December 31, 1938=100)

Industry	1940						1939								
	June (p)	May	Apr.	Mar.	Feb.	Jan.	Dec.	Nov.	Oct.	June (p)	May	Apr.	Mar.	Feb.	Jan.
TOTAL, ALL INDUSTRIES.....	108.5	108.6	108.9	109.8	110.0	109.3	107.3	104.6	101.3	95.8	96.5	97.5	99.0	99.8	99.9
Total, durable goods.....	111.2	111.2	111.4	112.5	112.7	112.1	110.3	107.2	103.3	95.0	96.4	97.9	99.6	100.4	99.6
Total, non-durable goods.....	105.7	105.8	106.2	106.8	107.0	106.2	104.1	101.8	99.1	96.8	96.6	97.1	98.3	99.2	100.2
Durable goods															
Iron and steel and their products.....	116.6	113.6	110.8	111.1	111.8	112.0	111.9	111.0	106.8	99.3	96.8	98.2	99.3	100.5	99.5
Transportation equipment (except automobiles).....	173.6	164.9	160.4	165.6	167.0	153.1	145.1	131.5	114.5	106.3	102.9	92.5	90.5	88.9	91.0
Electrical machinery.....	115.5	116.5	114.9	114.5	111.7	108.3	103.9	95.4	90.3	94.8	95.9	97.2	97.8	97.1	97.3
Other machinery.....	109.6	110.6	110.9	112.4	111.9	109.5	106.1	102.2	99.3	96.4	99.9	99.4	101.0	99.8	99.8
Automobiles and equipment.....	89.9	98.9	108.5	112.1	115.6	118.4	117.3	116.6	113.0	70.9	84.7	92.7	99.4	102.6	100.5
Other durable goods.....	107.0	107.0	107.8	108.7	107.8	108.1	106.2	102.0	99.4	99.1	98.8	100.0	100.6	102.1	101.1
Non-durable goods															
Food and kindred products.....	98.3	97.5	98.4	100.5	102.5	103.9	106.0	104.8	101.7	90.0	90.0	90.0	92.7	93.1	97.6
Paper and allied products.....	103.8	104.9	106.6	108.0	107.1	105.7	102.2	98.1	94.8	91.9	94.0	96.6	97.0	99.9	101.4
Chemicals and allied products.....	111.2	111.1	111.5	111.1	109.8	106.0	102.8	96.6	93.5	98.5	97.8	97.9	98.4	99.8	103.1
Petroleum refining.....	97.2	97.1	95.5	94.5	93.8	91.6	92.6	92.7	92.3	97.0	97.0	97.1	98.1	99.1	100.0
Rubber products.....	116.7	122.2	120.7	119.6	118.1	113.8	111.8	102.2	97.2	101.3	104.4	104.3	103.2	102.5	(a)
Other non-durable goods.....	110.5	110.5	111.2	111.8	111.8	111.7	106.0	104.9	102.6	101.4	100.3	101.0	102.0	102.9	101.9

* Figures relate to the end of each month shown.

(a) Not yet available.

Note: Data for the months of July, August and September 1939 are not yet available.

WHOLESALESAERS' sales and inventories, July 1940

Kind of Business	Dollar Sale				End of Month Inventories (Cost)				Stock-Sales Ratio*		
	Number of firms reporting sales	Percent change July 1940 from		July 1940 (000's)	Number of firms reporting stocks	Percent change July 1940 from		July 31, 1940 (000's)	July 1940	July 1939	June 1940
		July 1939	June 1940			July 1939	June 1940				
Automotive supplies.....	217	+18.7	+ 1.7	\$4,068	106	+ 8.2	- 2.2	\$4,668	231	245	231
Chemicals (industrial).....	22	+15.3	- 2.5	989	14	+13.4	- 0.3	743	112	113	105
Paints and varnishes.....	37	+25.8	- 2.9	2,308	14	+ 9.3	- 2.0	1,001	184	212	174
Clothing and furnishings, except shoes.....	47	+ 0.5	+11.6	1,352	25	- 2.2	+11.4	1,268	346	378	248
Shoes and other footwear.....	36	- 6.8	+31.6	9,489	23	- 2.9	+ 7.1	7,373	154	149	261
Coal.....	11	+18.0	+ 2.6	2,024	—	—	—	—	—	—	—
Drugs and sundries (liquor excluded).....	132	+ 6.8	+ 0.1	16,011	99	+ 0.2	+ 3.3	24,380	206	220	197
Dry goods.....	119	+ 9.3	+ 0.5	10,699	66	+ 4.6	+ 9.2	25,164	315	328	303
Electrical goods.....	338	+23.2	- 5.6	22,668	290	+13.1	- 1.8	23,883	115	125	110
Dairy and poultry products.....	15	+ 9.7	+ 0.6	1,485	—	—	—	—	—	—	—
Fresh fruits and vegetables.....	82	+ 8.6	- 6.8	2,849	52	+ 7.0	-12.2	503	26	26	27
Farm supplies.....	8	+ 2.6	-16.6	196	—	—	—	—	—	—	—
Furniture and house furnishings.....	72	+14.7	-10.2	3,645	41	+ 9.6	+ 3.7	7,045	301	310	244
Groceries and foods, except farm products.....	655	+ 8.5	+ 0.6	49,577	387	+ 5.0	- 1.1	44,855	144	149	150
Full-line wholesalers.....	349	+ 7.3	- 0.6	21,327	187	+ 7.7	- 0.3	19,789	158	155	150
Voluntary-group wholesalers.....	171	+ 6.8	+ 3.2	16,741	124	+ 4.3	- 1.3	17,726	160	162	160
Retailer-cooperative warehouses.....	20	+ 9.4	+ 5.0	3,270	9	+ 5.9	- 5.1	2,338	111	133	128
Specialty lines.....	115	+15.5	+11.4	8,239	67	+ 3.0	- 1.9	5,002	92	111	111
Confectionery.....	23	+ 6.8	-14.2	515	12	+ 1.0	+ 2.1	195	86	89	69
Meats and meat products.....	94	+ 8.0	+11.8	19,325	68	+14.0	- 1.9	5,030	57	54	63
Beer.....	36	- 5.7	- 8.7	493	25	+11.1	- 0.0	110	30	25	26
Wines and liquors.....	27	-27.7	-60.7	2,094	20	+ 9.3	+ 9.6	5,728	295	197	107
Liquor department of other trades.....	45	-21.5	-64.6	2,109	40	+34.1	+22.0	8,589	457	257	125
Total hardware group.....	438	+21.8	- 0.9	32,022	263	+10.6	+ 1.0	52,482	245	274	238
General hardware.....	145	+16.8	- 7.0	17,282	88	+10.5	+ 0.8	35,368	281	302	262
Heavy hardware.....	25	+38.0	+ 5.4	1,437	16	+23.9	+ 5.9	3,287	299	305	262
Industrial supplies.....	147	+25.4	+ 6.4	8,157	55	+ 9.3	+ 1.1	9,883	199	243	206
Plumbing and heating supplies.....	121	+30.7	+ 9.2	5,146	74	+ 5.5	+ 1.1	3,844	150	177	158
Jewelry.....	38	+47.1	- 9.4	962	20	+ 3.6	+10.9	2,605	495	703	428
Optical goods.....	36	+14.7	+ 8.5	320	15	+14.9	- 3.5	193	156	170	167
Lumber and building materials.....	40	+22.1	+ 3.2	2,795	27	+ 4.8	- 0.5	2,411	115	134	119
Machinery, equipment and supplies, except electrical.....	61	+14.3	- 0.8	2,331	32	+ 5.0	+ 2.1	3,452	244	269	238
Surgical equipment and supplies.....	31	+ 5.3	- 1.0	693	18	+10.1	+ 1.8	853	171	162	164
Metals.....	22	+35.0	+ 8.0	2,032	14	+22.3	+ 3.9	3,088	242	280	243
Paper and its products.....	99	+22.7	+ 1.5	5,636	49	+ 8.6	+ 1.1	5,238	165	187	165
Petroleum.....	8	- 8.9	- 9.8	4,579	6	- 7.5	+13.6	6,681	146	144	116
Tobacco and its products.....	159	+ 3.2	- 6.8	13,827	61	- 1.0	+ 3.2	3,762	52	54	49
Leather and shoe findings.....	11	- 9.1	- 3.0	130	—	—	—	—	—	—	—
Miscellaneous.....	30	+20.6	+20.5	3,991	30	+ 8.9	+ 2.1	7,637	148	160	165
Total.....	2,989	+10.5	- 2.1	\$221,214	1,823	+ 7.3	+ 2.8	\$240,224	171	177	160

*These stock-sales ratios are percentages obtained by dividing stocks by sales for an identical group of firms.
 †Chiefly of the Wholesale drug trade. ‡Not affiliated with voluntary or cooperative groups.

—Insufficient data to show separately.

WHOLESALESAERS' accounts receivable and collections, July 1940

Kind of Business	Number of firms reporting	Collection Percentages*			Total Accounts Receivable		
		July 1940	July 1939	June 1940	Percent change July 1940 vs.		As of July 1, 1940 (000's)
					July 1939	June 1940	
Automotive supplies.....	164	59	59	60	+ 8.8	+ 1.0	\$3,994
Chemicals (industrial).....	22	64	63	64	+12.1	+ 7.5	1,483
Paints and varnishes.....	34	59	55	58	+11.4	- 0.3	3,992
Clothing and furnishings, except shoes.....	46	37	39	46	+ 9.4	- 6.2	3,917
Shoes and other footwear.....	33	48	46	47	+ 0.9	-18.3	7,638
Coal.....	11	70	69	66	+22.8	- 2.5	3,024
Drugs and sundries (liquor excluded).....	110	67	66	67	+ 4.9	+ 0.9	18,983
Dry goods.....	106	46	44	45	+ 1.9	- 3.8	22,640
Electrical goods.....	317	73	72	76	+14.6	+ 2.3	29,509
Dairy and poultry products.....	13	151	148	148	+ 8.5	- 5.2	852
Fresh fruits and vegetables.....	60	150	141	152	+ 1.2	- 2.8	1,385
Farm supplies.....	7	62	59	75	+ 4.4	-46.9	402
Furniture and house furnishings.....	61	49	52	52	+14.1	- 4.8	7,351
Groceries and foods, except farm products.....	532	97	97	95	+ 6.9	+ 2.2	40,831
Full-line wholesalers.....	264	91	90	88	+ 6.3	+ 0.2	16,176
Voluntary-group wholesalers.....	147	95	94	94	+ 4.9	+ 5.6	15,940
Retailer-cooperative warehouses.....	17	169	161	172	+ 1.8	- 0.4	1,609
Specialty lines.....	94	99	101	97	+14.6	- 0.1	7,097
Confectionery.....	16	69	76	70	+20.7	+ 4.6	367
Meats and meat products.....	82	173	175	154	+ 9.0	- 2.7	10,547
Beer.....	14	115	134	114	+34.2	+47.8	102
Wines and liquors.....	23	66	82	67	+77.0	+17.3	3,617
Liquor department of other trades.....	32	65	74	85	+65.0	+57.2	5,264
Total hardware group.....	407	58	56	60	+11.3	+ 3.0	47,005
General hardware.....	133	52	51	55	+11.0	+ 2.7	29,018
Heavy hardware.....	22	81	74	81	+15.9	+ 0.8	1,604
Industrial supplies.....	135	69	65	71	+13.8	+ 2.2	9,370
Plumbing and heating supplies.....	117	60	57	60	+ 8.6	+ 6.0	7,004
Jewelry.....	28	28	28	20	+20.4	- 2.2	3,317
Optical goods.....	26	58	50	54	+ 2.6	- 0.2	400
Lumber and building materials.....	38	70	66	74	+ 5.1	+ 0.3	3,712
Machinery, equipment and supplies, except electrical.....	51	54	55	56	+ 6.7	- 0.1	3,424
Surgical equipment and supplies.....	30	80	46	52	- 2.5	- 3.1	1,227
Metals.....	22	82	74	80	+10.8	+ 3.2	2,364
Paper and its products.....	83	60	58	62	+13.1	+ 2.0	8,196
Petroleum.....	6	91	91	91	+ 8.8	+ 0.7	5,198
Tobacco and its products.....	109	129	130	125	+ 8.7	+ 1.8	8,818
Leather and shoe findings.....	10	34	38	34	+16.2	- 1.8	222
Miscellaneous.....	29	90	86	83	+ 4.3	+ 6.6	3,564
Total.....	2,512	74	74	74	+10.2	+ 0.9	\$253,354

*Collection percentages are obtained by dividing the collections by accounts receivable for an identical group of firms.

WHOLESALESALEs' sales and inventories, by geographic divisions, July 1940

Geographic Division and Kind of Business	Dollar Sales				End of Month Inventories (Cost)				Stock-Sales Ratio [#]		
	Number of firms reporting sales	Percent change July 1940 from		July 1940 (000's)	Number of firms reporting stocks	Percent change July 1940 from		July 31, 1940 (000's)	July 1940	July 1939	June 1940
		July 1939	June 1940			July 1939	June 1940				
New England.....	174	+12.2	- 7.7	\$12,932	111	+ 6.1	+ 0.4	\$10,991	122	131	115
Electrical goods.....	34	+25.3	- 0.7	1,489	29	+ 3.7	- 0.9	1,670	117	141	117
Groceries and foods, except farm products.....	27	+ 6.7	-14.0	2,086	13	+21.9	- 2.6	946	153	140	164
Meats and meat products.....	7	+ 8.3	+14.4	2,377	7	+ 7.9	- 2.7	721	30	30	36
Industrial supplies.....	18	+49.4	+10.5	650	12	+18.1	+ 0.3	1,349	255	325	281
Plumbing and heating supplies.....	9	+16.7	+ 0.5	196	5	+14.9	+ 0.2	416	279	285	275
Middle Atlantic.....	666	+12.4	- 4.5	49,304	374	+ 7.5	+ 1.2	46,611	150	157	138
Automotive supplies.....	28	+21.3	- 5.7	781	19	+ 3.4	- 2.0	1,165	201	243	185
Clothing and furnishings, except shoes.....	21	+ 1.6	+19.4	1,082	9	+ 0.3	+10.7	685	349	411	220
Shoes and other footwear.....	10	+11.6	- 6.4	569	5	-16.4	+14.3	1,339	283	369	252
Drugs and sundries (liquor excluded).....	19	+ 4.2	+ 0.2	3,165	15	+ 1.5	+ 1.0	2,950	146	151	146
Dry goods.....	45	+16.7	+ 4.3	2,673	22	+ 2.1	+ 3.0	3,960	292	337	278
Electrical goods.....	61	+26.9	-16.6	3,779	50	+11.1	- 6.6	3,834	115	131	99
Fresh fruits and vegetables.....	20	+12.6	-11.8	733	11	-20.0	-25.6	64	10	15	12
Furniture and house furnishings.....	21	+29.1	- 7.8	638	11	+ 7.9	+ 4.4	1,413	332	418	301
Groceries and foods, except farm products.....	95	+ 6.4	+ 2.8	8,425	42	+ 3.1	- 3.7	0,169	146	153	156
Meats and meat products.....	23	+10.8	- 0.3	5,311	17	+22.1	- 1.9	1,022	67	57	71
Beer.....	11	- 5.0	- 7.1	171	7	+11.5	+16.0	29	23	19	17
General hardware.....	33	+25.0	-12.8	2,098	15	+13.1	- 3.0	3,351	296	338	283
Heavy hardware.....	11	+30.6	- 3.9	887	9	+29.2	+10.2	2,617	304	310	267
Industrial supplies.....	40	+47.2	+ 6.2	2,190	26	+15.1	+ 2.1	2,836	159	208	166
Plumbing and heating supplies.....	49	+29.3	+ 6.6	1,504	30	+ 1.2	- 0.8	1,383	129	164	140
Jewelry.....	13	+58.7	- 6.2	346	8	- 5.3	+ 1.3	1,148	465	753	446
Optical goods.....	15	+16.4	+ 7.6	142	5	+21.4	0.0	102	309	350	291
Lumber and building materials.....	9	+22.6	+ 1.6	978	4	- 5.6	+ 3.5	419	73	93	72
Paper and its products.....	34	+24.6	- 5.1	2,429	18	+11.7	+ 3.1	2,425	152	169	141
Tobacco and its products.....	47	+ 4.4	+ 1.1	5,897	25	- 3.9	+ 2.9	2,309	47	52	47
East North Central.....	552	+15.6	- 3.6	39,706	347	+ 7.6	+ 2.4	47,679	167	180	166
Automotive supplies.....	54	+10.1	- 0.4	749	29	+12.7	- 0.4	1,309	250	245	249
Paints and varnishes.....	13	+22.1	- 5.1	337	4	+ 3.3	- 1.9	309	115	140	117
Clothing and furnishings, except shoes.....	9	- 3.7	-20.2	130	6	-13.7	+ 0.7	270	293	337	235
Drugs and sundries (liquor excluded).....	24	+ 7.4	+ 2.3	2,985	16	+ 6.3	+ 1.7	3,481	178	178	175
Dry goods.....	13	+16.4	-16.1	1,744	9	+ 5.2	+18.2	5,231	308	340	217
Electrical goods.....	64	+25.2	- 8.0	5,250	56	+ 5.3	+ 1.5	5,445	117	138	105
Fresh fruits and vegetables.....	12	+ 5.1	- 8.8	456	9	- 5.9	-11.2	111	38	42	42
Groceries and foods, except farm products.....	99	+10.4	+ 2.8	8,853	57	+ 5.5	- 1.4	6,928	129	133	138
Meats and meat products.....	23	+19.2	+16.8	2,710	20	- 2.0	- 8.4	1,261	53	65	68
Beer.....	12	- 7.4	- 6.0	188	10	+15.4	0.0	45	27	23	25
General hardware.....	22	+18.7	- 6.9	5,054	18	+11.9	- 0.6	12,687	262	290	248
Industrial supplies.....	27	+36.2	+ 7.7	1,829	15	- 1.8	- 3.0	1,937	154	219	173
Plumbing and heating supplies.....	15	+23.8	+ 2.1	713	8	+ 6.6	+ 3.2	551	224	269	238
Jewelry.....	12	+39.9	- 8.4	414	6	+ 8.8	+25.5	954	502	613	384
Optical goods.....	8	+17.3	+14.3	88	5	+10.0	- 3.5	55	100	111	116
Lumber and building materials.....	9	+25.3	+ 7.4	510	6	- 2.4	+ 4.6	366	100	139	106
Machinery, eqpt. & supplies, except electrical	13	+18.1	+14.1	437	8	+ 2.6	+ 0.7	277	109	127	132
Metals.....	9	+31.1	+10.9	994	5	+32.7	+ 6.7	1,904	312	290	302
Paper and its products.....	24	+25.2	- 0.1	1,533	12	+ 7.7	- 2.4	625	118	139	127
Tobacco and its products.....	37	+ 3.2	-12.0	2,732	14	- 0.4	+ 8.8	666	56	57	45
West North Central.....	333	+ 6.5	+10.4	29,455	226	+ 6.8	+ 3.5	38,745	195	195	204
Automotive supplies.....	18	+ 7.5	+ 3.8	459	8	+26.2	0.0	568	290	249	269
Drugs and sundries (liquor excluded).....	17	+ 1.7	- 4.2	1,824	15	+ 1.3	+ 5.2	3,282	215	219	194
Dry goods.....	10	+ 5.5	+22.7	3,320	9	+ 3.5	+ 6.4	9,626	296	302	341
Electrical goods.....	39	+12.0	- 6.1	2,242	37	+19.7	- 2.4	2,567	119	110	113
Fresh fruits and vegetables.....	12	+ 5.2	- 7.5	447	10	- 0.7	- 2.9	133	36	39	34
Furniture and house furnishings.....	10	+11.3	-21.8	1,044	9	+12.1	+ 6.6	3,409	331	330	244
Groceries and foods, except farm products.....	84	+10.6	+ 1.5	5,414	61	+ 3.0	- 1.3	6,702	156	164	162
Beer.....	8	-11.1	- 1.8	56	4	- 7.7	-14.3	12	44	41	54
General hardware.....	10	+18.3	+10.1	1,321	9	+ 5.6	+ 2.5	3,261	282	310	245
Industrial supplies.....	16	+ 3.6	+ 4.4	551	6	+ 4.1	+ 2.9	461	205	230	199
Plumbing and heating supplies.....	10	+17.4	+ 5.0	606	5	-12.0	+ 6.4	301	138	169	147
Machinery, eqpt. & supplies, except electrical	8	+ 5.2	- 8.4	384	4	+ 2.6	+ 3.2	159	131	182	118
Paper and its products.....	11	+14.3	+ 8.4	296	5	+ 8.3	+ 2.2	546	355	348	384
Tobacco and its products.....	14	+ 6.4	- 4.8	632	8	+ 8.1	+ 6.3	201	56	57	51
South Atlantic.....	344	+14.5	+ 1.3	17,622	194	+ 8.4	+ 3.9	19,165	169	180	163
Drugs and sundries (liquor excluded).....	22	+ 6.8	+ 2.2	1,514	15	+ 0.9	+ 0.5	2,449	244	257	247
Dry goods.....	14	+ 5.1	- 0.6	703	7	+17.1	+16.1	1,380	385	370	338
Electrical goods.....	49	+32.3	+ 9.1	3,307	45	+ 8.6	- 5.5	2,981	94	115	108
Fresh fruits and vegetables.....	12	+17.7	- 5.6	373	5	+ 7.5	-23.2	43	28	28	34
Groceries and foods, except farm products.....	90	+10.6	+ 1.7	4,093	36	+ 7.7	+ 1.1	2,747	146	153	146
Meats and meat products.....	11	+ 7.3	+ 6.5	688	8	+15.8	-12.0	329	52	48	63
General hardware.....	27	+11.2	- 1.6	1,770	15	+12.4	+ 4.5	3,136	263	269	255
Industrial supplies.....	13	+31.4	+19.9	506	7	+25.2	+ 2.1	675	201	217	230
Plumbing and heating supplies.....	18	+38.7	+18.7	979	15	+12.8	+ 2.8	794	133	154	134
Paper and its products.....	10	+22.2	+ 7.0	457	4	+ 3.6	- 3.4	371	180	227	198
East South Central.....	154	+ 5.8	- 3.7	8,364	87	+11.2	+ 6.9	10,062	202	196	183
Drugs and sundries (liquor excluded).....	13	+ 3.3	- 2.5	1,142	9	- 0.9	- 0.3	1,968	216	227	208
Dry goods.....	12	- 7.2	+11.1	490	7	+19.4	+21.8	1,497	469	365	433
Electrical goods.....	14	+20.3	+ 4.3	823	11	+26.3	- 3.4	883	122	115	127
Groceries and foods, except farm products.....	48	+ 5.1	- 6.4	2,657	21	+ 6.3	+ 9.0	1,646	144	143	132
General hardware.....	11	+10.6	- 0.7	1,203	5	+ 9.2	+ 8.8	1,601	233	254	218
Industrial supplies.....	10	+22.3	+ 7.3	323	5	+17.0	+ 3.0	206	176	196	179
West South Central.....	277	+ 3.4	+ 0.8	17,262	191	+ 8.8	+ 2.1	23,928	205	192	199
Automotive supplies.....	13	+ 9.2	+10.7	166	10	0.0	- 2.9	368	261	288	301
Drugs and sundries (liquor excluded).....	17	+ 3.5	+12.5	1,628	11	+ 6.5	+ 2.6	3,331	257	253	282
Electrical goods.....	33	- 4.0	- 2.3	1,669	25	+23.3	- 3.1	1,911	130	100	130
Groceries and foods, except farm products.....	129	+ 7.0	+ 2.2	7,718	98	+ 5.9	- 0.7	8,707	159	157	162
Liquor department of other trades [#]	10	+ 7.6	-41.0	324	7	+42.5	+40.6	1,213	456	339	186
General hardware.....	15	+ 3.4	- 3.4	1,463	9	+11.9	+ 3.7	2,355	337	307	297
Industrial supplies.....	7	- 6.5	- 1.1	1,506	4	+11.2	- 1.2	1,461	396	270	288
Mountain.....	136	+ 5.6	- 6.4	7,519	94	+ 9.2	+ 0.1	9,514	170	166	159
Automotive supplies.....	19	+ 8.0	- 9.6	283	9	+ 7.6	- 2.7	356	252	288	273
Electrical goods.....	14	+19.2	- 4.7	839	10	+36.3	0.0	837	120	102	112
Groceries and foods, except farm products.....	38	- 0.5	- 8.0	2,359	31	+ 7.5	- 0.6	3,061	164	155	154
Pacific.....	351	+17.5	- 7.3	30,586	198	+ 7.6	+ 2.9	36,213	184	196	165
Automotive supplies.....	64	+38.3	+10.9	1,249	24	+ 1.1	- 8.1	672	197	212	216
Drugs and sundries (liquor excluded).....	9	+41.2	-18.4	2,740	7	+ 5.7	+ 9.3	5,045	235	254	198
Dry goods.....	12	+10.9	+15.7	796	4	+12.1	- 1.5	640	303	287	378
Electrical goods.....	30	+35.4	- 5.9	3,270	27	+20.3	+ 2.9	3,755	121	136	111
Fresh fruits and vegetables.....	10	+ 3.5	+ 2.6	442	5	-14.7	-31.0	29	14	16	17
Furniture and house furnishings.....	12	+ 8.8	+16.8	703	6	- 7.4	+ 1.8	512	356	404	406
Groceries and foods, except farm products.....	45	+12.8	+ 3.2	7,972	28	+ 3.2	- 1.9	7,949	127	142	139
Meats and meat products.....	11	+ 3.5	+ 0.9	1,140	9	+10.1	+41.0	612	84	76	61
Wines and liquors.....	9	-17.1	-52.8	885	5	+ 8.8	+15.2	1,709	213	172	96
General hardware.....	19	+21.0	- 8.4	3,545	12	+ 7.5	+ 0.6	7,942	328	374	296
Industrial supplies.....	14	+32.3	+ 9.2	536	8	- 2.0	- 0.4	792	268	362	268
Plumbing and heating supplies.....	11	+57.1	+15.7	919	4	+ 8.2	+ 8.2	158	119	149	125
Lumber and building materials.....	13	+28.3	+21.4	630	10	+21.9	- 3.7	579	114	116	140
Machinery, eqpt. & supplies, except electrical	13	- 7.5	-13.9	273	5	+26.9	- 1.7	453	412	331	378

*These stock-sales ratios are percentages obtained by dividing stocks by sales for an identical group of firms.
[#]Chiefly of the wholesale drug trade.

WHOLESALEERS' accounts receivable and collections, by geographic divisions, July 1940

Geographic Division Kind of Business	Number of firms reporting	Collection Percentages*			Total Accounts Receivable		
		July 1940	July 1939	June 1940	Percent change July 1940 from		As of July 1, 1940 (000's)
					July 1939	June 1940	
New England	154	79	77	78	+12.7	+3.1	\$16,045
Drugs and sundries (liquor excluded)	6	55	55	53	+13.4	+4.3	1,201
Electrical goods	32	78	77	81	+5.3	+4.4	1,784
Groceries and foods, except farm products	21	82	81	86	+10.0	+19.8	2,488
Meats and meat products	7	176	150	155	-4.4	-14.2	1,227
Industrial supplies	16	60	58	67	+18.5	-0.4	781
Plumbing and heating supplies	9	48	46	48	-3.2	+9.8	360
Tobacco and its products	11	140	142	134	+7.0	-6.1	1,157
Middle Atlantic	567	79	78	79	+10.5	+0.6	56,520
Automotive supplies	25	51	51	53	+14.9	+1.0	1,057
Clothing and furnishings, except shoes	21	36	39	48	+12.0	-4.9	2,974
Shoes and other footwear	10	41	38	43	+1.5	-11.7	1,680
Drugs and sundries (liquor excluded)	18	56	59	56	+8.9	+0.3	4,407
Dry goods	40	52	50	54	+1.2	-3.1	4,763
Electrical goods	57	78	78	88	+22.8	+7.3	5,050
Fresh fruits and vegetables	13	223	191	235	-1.4	+0.7	283
Furniture and house furnishings	17	44	42	44	+13.2	-7.3	1,535
Groceries and foods, except farm products	77	95	94	92	+7.4	-0.1	7,724
Meats and meat products	19	170	166	166	+5.8	0.0	3,031
General hardware	29	48	46	49	+12.5	-0.8	3,977
Heavy hardware	10	83	79	86	+14.9	+0.3	1,026
Industrial supplies	36	73	67	75	+25.9	+2.5	2,497
Plumbing and heating supplies	47	55	51	53	+10.1	+4.1	2,465
Jewelry	9	29	22	25	+14.7	-6.7	531
Optical goods	11	60	47	55	+3.4	-6.2	182
Lumber and building materials	9	73	64	73	+5.7	-5.5	1,369
Machinery, equipment and supplies, except electrical	7	66	66	56	+16.5	-0.5	184
Paper and its products	26	56	52	55	+12.0	+0.6	3,753
Tobacco and its products	35	151	144	136	+1.1	-1.9	3,616
East North Central	463	72	71	71	+10.9	+1.6	48,760
Automotive supplies	47	69	67	71	+6.8	-0.7	724
Paints and varnishes	12	47	42	45	-1.5	-2.8	699
Clothing and furnishings, except shoes	8	52	51	52	-6.0	-11.2	316
Drugs and sundries (liquor excluded)	20	78	78	76	+5.6	+1.9	2,852
Dry goods	12	44	43	43	+5.3	-5.4	5,143
Electrical goods	61	72	68	71	+12.7	+2.2	7,541
Fresh fruits and vegetables	7	130	132	129	+4.4	-4.6	167
Furniture and house furnishings	7	55	56	57	+21.1	-4.8	851
Groceries and foods, except farm products	80	102	100	96	+6.5	-1.5	7,079
Meats and meat products	19	148	140	129	+10.9	+1.1	1,273
General hardware	21	57	58	59	+14.2	+3.1	8,498
Industrial supplies	25	76	64	76	+8.4	-0.1	2,019
Plumbing and heating supplies	14	64	59	66	+9.4	+6.8	970
Jewelry	9	29	29	17	+25.2	+1.7	2,002
Lumber and building materials	8	79	69	82	+3.6	+10.0	570
Machinery, equipment and supplies, except electrical	10	101	100	74	+12.4	+11.4	390
Metals	9	84	77	82	+3.8	+4.3	1,069
Paper and its products	22	69	69	78	+12.6	+8.3	2,083
Tobacco and its products	24	116	119	123	+16.3	+6.2	1,774
West North Central	280	77	77	72	+7.6	-5.1	35,226
Automotive supplies	12	59	56	58	+7.1	-0.5	585
Drugs and sundries (liquor excluded)	16	69	66	68	-1.1	-0.4	2,620
Dry goods	10	45	44	43	+0.6	-1.3	6,615
Electrical goods	36	74	71	76	+6.5	-2.5	3,056
Fresh fruits and vegetables	9	199	197	139	+6.8	-5.8	197
Furniture and house furnishings	10	51	60	58	+25.4	-5.5	2,470
Groceries and foods, except farm products	66	126	129	123	+9.0	+5.1	3,656
General hardware	10	62	60	65	+8.7	+0.4	2,230
Industrial supplies	15	63	62	56	+1.7	-0.8	733
Plumbing and heating supplies	10	58	58	59	+8.1	+0.8	791
Machinery, equipment and supplies, except electrical	7	64	57	59	+4.7	+3.4	667
Paper and its products	10	66	63	67	+12.8	-1.0	389
South Atlantic	270	66	64	65	+8.3	-1.6	18,985
Automotive supplies	12	57	60	59	+18.8	+6.5	410
Drugs and sundries (liquor excluded)	16	73	72	72	+5.4	-2.8	1,475
Dry goods	10	40	37	42	+0.9	-9.0	1,384
Electrical goods	48	67	67	67	+10.4	-1.6	4,274
Fresh fruits and vegetables	10	115	106	110	-0.7	-1.8	266
Groceries and foods, except farm products	60	100	93	91	+5.2	-2.9	2,632
Meats and meat products	9	167	153	139	+0.3	0.0	380
General hardware	25	39	40	42	+9.1	+0.5	3,286
Industrial supplies	11	61	56	66	+7.3	+4.3	633
Plumbing and heating supplies	17	61	56	59	+10.0	+8.7	1,115
Paper and its products	8	62	56	60	+8.6	-2.6	533
Tobacco and its products	7	94	95	94	+13.6	+3.4	334
East South Central	128	62	61	64	+8.7	+0.7	10,853
Drugs and sundries (liquor excluded)	11	68	64	64	+6.3	-0.5	1,657
Dry goods	11	34	34	35	-2.6	-6.7	1,417
Electrical goods	12	66	74	77	+23.7	+8.3	1,066
Groceries and foods, except farm products	35	80	78	82	+9.9	+0.5	2,173
General hardware	9	47	46	51	+12.5	+5.9	1,645
Industrial supplies	10	76	63	69	+17.6	+1.1	442
West South Central	233	70	72	72	+5.6	-0.2	17,845
Automotive supplies	10	61	69	56	+11.6	-1.5	192
Drugs and sundries (liquor excluded)	10	72	71	69	-2.0	-1.4	1,613
Electrical goods	31	74	81	80	+4.9	-4.3	1,991
Groceries and foods, except farm products	112	85	87	88	+4.6	-0.2	6,160
General hardware	14	55	56	58	+6.4	+3.2	1,906
Mountain	114	75	76	78	+6.4	+4.8	8,082
Automotive supplies	10	58	54	56	-0.5	+1.0	194
Electrical goods	13	68	70	70	+15.8	+4.3	1,080
Groceries and foods, except farm products	32	90	90	94	+0.6	+8.8	1,945
Pacific	302	74	74	76	+15.3	+7.1	36,342
Automotive supplies	42	67	66	67	+1.6	+2.1	660
Drugs and sundries (liquor excluded)	8	72	67	78	+4.0	+6.0	2,647
Dry goods	10	62	58	55	+4.7	-4.7	1,100
Electrical goods	27	74	72	77	+29.9	+5.7	3,067
Fresh fruits and vegetables	8	109	103	118	-2.8	-8.1	282
Furniture and house furnishings	12	52	52	54	-6.2	-1.9	1,191
Groceries and foods, except farm products	39	103	102	100	+8.5	+4.6	6,974
Meats and meat products	10	182	164	173	-6.5	-1.9	621
Wines and liquors	9	66	87	73	+83.4	+33.1	1,924
General hardware	19	55	50	56	+8.3	+5.6	6,466
Industrial supplies	14	58	61	64	+20.2	+2.8	773
Plumbing and heating supplies	11	71	70	74	+17.4	+16.3	1,005
Lumber and building materials	13	56	72	66	+18.1	+3.6	889
Machinery, equipment and supplies, except electrical	10	44	49	50	+11.4	+1.5	410
Tobacco and its products	14	90	104	100	+23.0	+18.3	1,280

*Collection percentages are obtained by dividing collections by accounts receivable for an identical group of firms.
 STATES COMPRISING DIVISIONS: New England—(Conn., Me., Mass., N. H., R. I., Vt.); Middle Atlantic—(N. J., N. Y., Pa.); East North Central—(Ill., Ind., Mich., Ohio, Wisc.); West North Central—(Iowa, Kans., Minn., Mo., Nebr., N. Dak., S. Dak.); South Atlantic—(Del., D. C., Fla., Ga., Md., N. Car., S. Car., Va., W. Va.); East South Central—(Ala., Ky., Miss., Tenn.); West South Central—(Ark., La., Okla., Texas); Mountain—(Ariz., Colo., Idaho, Mont., Nev., N. Mex., Utah, Wyo.); Pacific—(Cal., Ore., Wash.).

